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MONEY LAUNDERING ACTIVITY ASSOCIATED WITH THE MEXICAN NARCO-CRIME SYNDICATE

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BEFORE THE

SUBCOMMITTEE ON
GENERAL OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON BANKING AND
FINANCIAL SERVICES

HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

SEPTEMBER 5, 1996

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MONEY LAUNDERING ACTIVITY ASSOCIATED WITH THE MEXICAN NARCO-CRIME SYNDICATE

THURSDAY, SEPTEMBER 5, 1996

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL OVERSIGHT
AND INVESTIGATIONS,
COMMITTEE ON BANKING AND FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m. in room 2128, Rayburn House Office Building, Hon. Spencer Bachus [chairman of the subcommittee] presiding.

Present: Chairman Bachus, Representatives Barr, Waters, Wynn and Ackerman

Chairman BACHUS. Thank you.

We want to welcome you today to this subcommittee meeting of the Oversight and Investigations Subcommittee of the Banking Committee.

Why are we here today? We are here today for several reasons. The first reason is because drugs corrupt our country. They corrupt our young people.

There has recently been a lot of publicity about the latest national household survey on drug abuse, which many of you may have seen. This was done by the Department of Health and Human Services and it has some quite disturbing information in it.

It states that nearly 11 percent of the young people 12 to 17 are using illegal drugs on a monthly basis.

The monthly use of cocaine by young people has risen 166 percent between 1994 and 1995. Methamphetamine use, 80 percent of which comes from Mexico, has increased 261 percent between 1991 and 1994.

Let me give you one final statistic. Today, it is estimated that 12.8 million Americans are currently illicit drug users, 12.8 million Americans.

Another survey which was recently released by our government, this again by HHS, called the Drug Abuse Warning Network Report, stated that in 1995, heroin-related emergency room episodes rose to their highest level since the surveys began in the 1970's. Marijuana-related emergency room episodes increased 17 percent over 1994 and 96 percent over 1992.

Not only are our young people and our general population using drugs, but drugs are destroying their health and their lives. That is one reason we are here.

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We cannot have 12.8 million Americans being regular, current users of illicit drugs; it is an intolerable situation. We cannot have our young people destroying themselves in such large numbers and in such an abusive and devastating way.

We are here to discuss how we can do something about this problem. And we want to do it in a non-partisan, or a bipartisan way, because these young children are not Democrats, they are not Republicans, they are not independents. They represent people in all our communities of all religious backgrounds, of all political persuasions. So this is not a problem for Democrats or created by Democrats; it is not a problem for Republicans or created by Republicans. It is a problem that we all have and it is a problem that we all need to meet together, not as members of political parties, but as Americans.

The war on drug cartels begins with a comprehensive effort to interdict drugs entering the country, and we have had a lot of publicity on that. You can't turn on the news without seeing a drug seizure or seeing pictures of helicopters or chases, things of that nature. However, it can't end there.

Drug cartels don't smuggle drugs as a public service; they do it for the billions of dollars in profits that they rake in.

We have two opportunities to get the drug lords, those people that profit to the tune of billions of dollars at the expense of our young people and our American citizens. One is we can get them when they bring drugs in. Another is we can get them when they take the money out.

The immense magnitude of the drug profits makes the war on money laundering critical. If we are to eliminate their motive, we have to hit their bottom line.

The October 1992 FinCEN report states that money laundering results in the continued proliferation of the narcotic abuse problem within the U.S.. As we have said, drugs corrupt and destroy our young people. Drug profits corrupt our economy, our financial institutions and our law enforcement agencies.

That is why we are here today, specifically to review the U.S. law enforcement response to the money laundering activity associated with narcotics trafficking across the United States/Mexican border. If we are, in fact, still conducting a war on the drug cartels, by any objective standard, we are losing in the battle against the drug cartel money laundering operations.

Drug smuggling has always been present along the border between the United States and Mexico. In the early 1990's, however, smuggling along the Southwest border increased dramatically as the focus of transporting illegal drugs shifted from south Florida to Mexico. Law enforcement officials estimate that as much as 70 percent of all illegal narcotics now enter the United States through Mexico.

I have reviewed the latest statistics from our government agencies. They say that 70 percent of the cocaine, 80 percent of the methamphetamines and foreign-grown marijuana and 30 percent of the heroin that winds up on American streets crosses the United States/Mexican border.

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Recently in my home State, we had two young people die in the past two weeks from "ice." You may not know it but "ice" is methamphetamine. It is a growing problem. It is a serious problem.

Also, in a rural county in Alabama last week, in a drug shootout, a mother and her five-year-old child were killed. So this is a problem, as I said, for all of us, and it is a problem that we are reading about and paying the price for every day. And these drugs, most of them, the majority of them, are coming across the United States/Mexican border.

This shift to Mexico can probably be attributed to a number of factors, including the increased Federal and local efforts to attack drug smuggling through South Florida in the late 1980's and early 1990's, and changes in the leadership of the South American drug cartels. Corresponding to the shift in drug smuggling, U.S. law enforcement agencies have seen an increase in the amount of drug proceeds being laundered through Mexico. As recently as March, the Department of State identified Mexico as the money laundering haven of choice for initial placement of U.S. drug cash into the world financial system. The GAO concurred in a separate report issued this past June.

Estimates of the amount of cash laundered through Mexico range from $6- to $30-billion. Over the years, fighting money laundering has been a bipartisan priority in the U.S. Congress. Both Chairman Leach and former Chairman Gonzalez have been instrumental in providing necessary tools for law enforcement.

One primary tool is the currency transaction report or CTR requirement. Under the CTR, banks must report all transactions exceeding $10,000. Thanks to this law, the efforts of our law enforcement forces and the integrity of our financial industry, the laundering of drug profits through U.S. banks is extremely difficult.

There is no similar safeguard in Mexico. Once drug profits are in Mexican banks, the cartels are free to transfer the money and spend it anywhere in the world. Given today's highly-advanced technology, this is a simple matter indeed. This would not be a problem if we had better enforcement of the Currency and Monetary Instrument Report or CMIR requirement. Under the CMIR, anyone leaving the U.S. with cash in excess of $10,000 is required to file a report with the Customs Service.

In theory, this is a tool to prevent outbound smuggling of cash en route to Mexican financial institutions. It appears, however, that the drug cartels are laundering with little opposition. The method is simple: They drive truckloads of cash into Mexico.

The U.S. Customs Service, the agency responsible for stopping the flow of drug money out of the country, searches fewer than 3 percent of the cars leaving the U.S. for Mexico and what we hear from field agents is that almost none of the billions in drug profits are intercepted. Statistics bear this out. Last year, Customs' seizures of currency declined to less than $4 million along the Mexican border.

Currently, a drug trafficker with stockpiles of cash in Chicago or L.A. can simply drive the cash to Mexico with virtually no chance of being challenged. One must ask, "Is this the best that we can do?"

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This hearing should not be seen as belittling or in any way denigrating the tremendous effort of the Customs Service and its agents. The Customs Service is an organization with a proud history that is charged with doing the tough work in the trenches in the war against drugs. As with any front-line troops, the Customs Service's success is tied to the amount of support it gets from other law enforcement agencies. The failure to interrupt the flow of drug profits across the border is a failure not just of Customs, but of DEA, FBI, FinCEN and those organizations, including Congress which support them.

The Customs Service often is successful. Recent press reports indicate that in recent weeks, the Service seized $15 million in Miami from would-be cash smugglers. However, this $15 million seizure is more than three times the amount seized last year along the whole Southwest border, ground zero in the money laundering war.

Another aspect of the problem is that once illicit proceeds are taken out of the U.S. and deposited in the financial system via Mexican banks, substantial amounts are often transferred back into the legitimate U.S. banking system. What is particularly disturbing is that we are now seeing drug traffickers using their dirty money to buy vast amounts of land and businesses as far as 50 to 60 miles on each side of the border itself, creating what is, in effect, almost a free trade zone for drug trafficking, a free trade zone that they alone control.

The use of foreign bank drafts facilitates the transfer of funds back to the U.S. after they have been laundered in Mexico. Such drafts are a well-known loophole in U.S. anti-money laundering laws. While banks are required to comply with the CTR requirements, foreign bank drafts, especially cashiers' checks, need not be reported either on entry into the country or when deposited in U.S. institutions.

The Financial Crimes Enforcement Network, FinCEN, was charged in 1994 with the job of plugging that loophole, but has yet to issue draft regulations. That effort is long, long overdue and Mr. Gonzalez, I understand, has an immediate release dealing with this subject and it is available for your inspection. It is my understanding that FinCEN has now indicated that within about a month—six weeks—they will release these long-awaited regulations and we certainly applaud that announcement.

[The information referred to can be found on page 74 in the appendix.]

Former Chairman Gonzalez has also asked FinCEN to take a look at money laundering activities in and around San Antonio and along the border, and the details of that request and what he asked that they look for, are included in this release and I applaud Representative Gonzalez for his continued efforts in this regard.

To have any success in our war against the cartels, there must be a concerted effort between Federal and local officials. Unfortunately, there appears to be the usual friction and lack of coordination between and among the half dozen Federal law enforcement agencies and the various State and local police forces along the Southwest border. This will only be overcome with leadership.

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No one claims that this is an easy job or that there ever was a time when we had defeated the drug cartels. Criminals have successfully laundered drug profits for decades. Congress has now provided the weapons to law enforcement. It is up to law enforcement to use those weapons wisely and aggressively to attack the money laundering techniques currently being used by the cartels. If currency smuggling along the border is the avenue of choice, we must take on the challenge.

Finally, for law enforcement to be successful, it must have direction and leadership. The war against drugs starts with leadership and support from the top of the Administration.

[The prepared statement of Hon. Spencer Bachus can be found on page 80 in the appendix.]

Chairman BACHUS. Today, we will hear from two panels. On the first panel will be U.S. Customs Commissioner George Weise; Stan Morris, Director of the Treasury Department's Financial Crimes Enforcement Network, FinCEN; Mr. Donny Marshall, here representing U.S. DEA, U.S. Drug Enforcement Administration; and, Jonathan Winer, State Department Deputy Assistant Secretary for International Crime and Narcotics.

Gentlemen, we appreciate your attendance here today. I am going to allow Ms. Waters to make any opening statement she would like to make and then we will hear from the first panel.

The second panel, I will reserve introduction of them until a later time, but we do have an excellent second panel and they will respond to some of your testimony.

Ms. WATERS. Thank you very much, Mr. Chairman.

We are exploring a very important issue this morning. The role of Mexico, particularly its money laundering activities, represents a crucial link between international drug smugglers and the devastation caused by those drugs in communities throughout this country.

The cash flow schemes employed by the cartels with the complicity of foreign and domestic financial institutions facilitates the drug culture in a fundamental way. However, in this highly political season, I must admit to some concern about what seems to be a rash of hearings this month in many committees of this House on the subject of drugs, just as Presidential candidate Dole attempts to use the issue as part of his campaign strategy against President Clinton.

However, I say: "Let the real debate begin." If this Congress is truly serious about the impact of drugs, from the importation of cocaine to this country, to its conversion to crack, to the financial underworld in Mexico and other countries, to the connection to the U.S. foreign policy and, indeed, to the complicity of our own intelligence officials in these endeavors.

I turn your attention to an astonishing series of articles printed in the *San Jose Mercury News* August 18, 19 and 20, 1996, which I have distributed to every member of this subcommittee. It is on the desk in front of everybody.

After more than a full year of research and investigation, the *Mercury News* has traced the origins of the crack cocaine trade in this country to an operation led and designed by the CIA and their paid Nicaraguan agents who introduced crack cocaine and guns to

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South-Central Los Angeles. They then spread their operation to other inner city areas throughout America.

The proceeds of these crack cocaine profits and the sale of Uzis and AK–47s funded the establishment of the FDN, the so-called Nicaraguan Democratic Force; that is, the Contra army. The consequences of this wholesale dumping of cocaine into inner cities by CIA-organized agents has been widespread homelessness, violence, the destruction of families and death. Earlier efforts to get to the bottom of the CIA/Contra crack cocaine connection, specifically those conducted by the Senate Subcommittee on Terrorism, Narcotics and International Operations, concluded in December 1988 that there was drug smuggling by the Contras, and that this country's efforts to prosecute the war against Nicaragua created smuggling opportunities many international drug dealers exploited.

Unfortunately, those efforts led by Senator John Kerry and others were not met with cooperation by officials of the Reagan/Bush Administration. According to the subcommittee's report, the Justice Department was slow to respond to allegations regarding links between drug traffickers and the Contras. The failure of U.S. law enforcement and intelligence agencies to respond properly to allegations concerning criminal activity relating to the Contras was demonstrated by the handling of the subcommittee's own investigation by the Justice Department and the CIA. However, there still has been no effort to identify and punish the drug dealers coordinated and sponsored by the CIA.

What the *San Jose Mercury News* story has done is to fill in many of these gaps and, if possible, paint a more gloomy picture than we had before. This series has named names, listed times, places and dates and documented the CIA's involvement. Indeed, they are working relationships with those who masterminded the importation of crack into the U.S..

Using newly released information as well as testimony from recent court cases involving the participants in this drug enterprise, reporter Gary Webb has dramatically demonstrated how U.S. foreign policy and U.S.-paid security and law enforcement officials during the Reagan Administration facilitated the genesis of crack cocaine into my community, into south-central Los Angeles, in the mid-1980's that consequently spread across this country into the inner cities.

To think that my government could have allowed the trade of drugs and the introduction of crack cocaine into the neighborhoods of America is an outrage beyond any words I can muster.

I challenge this Congress, especially the leadership of this institution, to hold serious hearings on the documented accounts of drug smuggling recounted in the *San Jose Mercury News.* This story threatens whatever trust there might have been between those who have been trying to work to eradicate crime from our neighborhoods and our communities.

Mr. Chairman, let me just say this. You are familiar with the heated debate that I was a part of about crack cocaine sentencing when the sentencing commission recommended some changes in the mandatory sentences that take place. What that sentencing commission recognized was the Justice Department had targeted inner cities, and they were picking up minority youths selling one

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rock cocaine, a few grams or whatever. They are filling up our Federal prisons with mandatory sentences, 5, 10 years and, if it's a third strike, 25 years, life, what have you. At the same time, these young people are the victims of a policy orchestrated by this government that brought the cocaine in in tons into the inner cities and assisted in the development of crack cocaine.

While this Congress refused to accept the sentencing commission's recommendations and move forward to talk about why this public policy should further be expanded to incarcerate more of these foolish young people in these inner cities, wrong they are but stupid they are, the big drug dealers go free.

What this article documents is what many of us have thought in these inner cities. The drugs are coming in in huge amounts with the assistance of our own government. It is unconscionable, Mr. Chairman, and while I commend you for this hearing as we talk about money laundering and the link to Mexico, I visited one of the main participants in the drug trafficking identified in the *San Jose Mercury News* in a facility in San Diego day before yesterday, known as Freeway Rick, a young man who comes from the community and someone that I recognized from stories in newspapers and someone who is seen around our communities from time to time.

I went and visited him in San Diego. I drove down, to talk with him about the *San Jose Mercury News* reports about his being a drug dealer starting back in the early 1980's and the people that he dealt with. Where did he get the drugs from? He confirmed much of what was in the *San Jose Mercury News,* told me that he received tons of drugs and guns from one Mr. Blondon, as he knew him. He was identified as a CIA agent, one who was responsible for his being in prison right now because he is an informer. He is allowed to sell drugs as long as he feeds up one of these minority, black drug dealers every now and then to the authorities and they stage a big I-caught-somebody while Blondon remains free.

He has been selling drugs in this country, got into this country connected to Samosa, openly admits that he brought the drugs in and put them in my community and spread them out to other minority communities. Blondon is walking around free, been selling drugs for years, not little drugs, not one rock cocaine, pounds, tons of drugs.

Mr. Blondon is identified, Mr. Meneses is identified, CIA agent, worked for the CIA, ran a Coca-Cola company in Managua. It goes on and on and on.

So I don't want to play with this issue. I don't want to be a part of the staging of any hearings and any lightweight discussions based on the fact that all of a sudden somebody is looking for an issue. I don't care whether Mr. Clinton is being countered by Mr. Dole, because Mr. Clinton said that young people are involved with tobacco and Mr. Dole came back and tried one-upsmanship on Mr. Clinton and young people increasingly are involved in drugs.

Let me tell you something, Mr. Chairman. The information that you shared about the violence and the young person that was killed, that's outrageous. Do you know how many young people have been killed in these inner cities and in South-Central Los Angeles, involved in this dope and crack cocaine trade over the past 10 years? Do you know how many children have been caught in the

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cross-fire? Do you know that Mr. Blondon not only brought in the Uzis and the AK–47s, documented, he even brought in a grenade launcher?

When I met with Mr. Freeway Rick at the prison day before yesterday in San Diego, he identified the times, dates and places when the guns were brought in. He identified who his connection is.

Now, Mr. Chairman, I am going to sit through this hearing and I am going to do everything that I can, but I certainly hope that you, as the chairman of this subcommittee, the Republicans who are in the leadership of all of our committees, don't just play with this issue.

Take a look at the *San Jose Mercury* documentation of the connection between the CIA and the drug dealers who are still on the streets who have boats, houses, cars, businesses, everything that you mentioned. This really has to do with whether or not we are going to be serious about this issue, or whether or not, regardless of what side of the aisle we sit on, Democrat or Republican, we are going to get down to some real business and we are going to challenge the CIA.

We should challenge policies that allow big-time drug dealers to stay on the street because they are informants and then they can set up some phony raid and catch some poor, stupid kid from South-Central or from the Bronx. I am not going to allow this issue to be played with. I am glad the people just discovered that folks are dying. I guess it wasn't important when all of these young minorities have been dying and killing and these drug wars and territories that have been fought over have been going on for the past 10 years.

I guess all of that information that was watched about Ollie North's involvement in the drug trade, let's have a real debate on it. Let's bring the information up here.

There are people sitting in this room today who were involved in those hearings. When my time comes up for questioning, I am going to ask them about that because I think that's where the real problem is. The real problem is this government knows far too many drug dealers and is involved with far too many drug dealers who are on CIA payrolls, who are on FBI payrolls. And if we really want to stop drugs from coming in, we will break up the relationship between our government and the drug dealers.

I could go on and on and on. I guess I sound a little bit passionate about it, and I am, Mr. Chairman. I am passionate about it because the result of the funding of the Contras, the introduction of tons of cocaine into my community by Mr. Blondon and Mr. Meneses, the deaths of so many of the young black males and young Latino males in my community, I mean, this stuff is real.

All of the crack-addicted babies and mothers, all of the homelessness, the health problems that have been wreaked on my community and other communities like mine are facts that really don't need any more research. These are facts and situations that really don't need to be played with or toyed with by any politician or any Presidential candidate.

And so, Mr. Chairman, I am going to join with you today in this hearing on Mexico and money laundering and drugs. But if you really want to talk about some hearings, I want you to get the CIA

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in here. You've got subpoena power, at least the chairman of the subcommittee has got subpoena power. Nothing is going to happen until we use the subpoena powers and we bring in all of those who escaped the hearings around the funding of the Contras that brought the drugs in in large quantities they didn't know about. We didn't even have cocaine in poor communities prior to then.

Let me just allow you to go on with your hearing. I have said as much as I need to say at this time and I thank you for your patience, Mr. Chairman.

Chairman BACHUS. I would say to the gentlewoman from California that several of the points she made are valid. I would tell her that she's probably not aware of this, but I only say this because there was some reference to politicians only now becoming interested in the drug war, that I was a special assistant attorney general for a State agency which set the U.S. record for marijuana seizures for 2 years in a row, and I was chief legal counsel and prosecuted drug traffickers, drug agents and those who transported it. So I have——

Ms. WATERS. Thank you very much, Mr. Chairman. I certainly didn't mean to imply that you in particular have not been interested and involved. I welcome your sharing that with us because it helps me to understand that we can join hands in this effort.

Chairman BACHUS. Thank you. And this was a State agency that eradicated more marijuana than any other State or Federal agency.

And I would say that we have got—those that profit from the sale of these drugs to these young people who, as you say, are out there, they're susceptible, they're young and they are paying the ultimate price—we have to go after the money. We cannot allow people to profit from this situation.

I will join you in a bipartisan effort and I think we need to focus on what we can do here today and I appreciate you bringing this to our attention.

Ms. WATERS. If I can, just before you start, I would like to share with you, Mr. Chairman, and those who are interested that the young man who is responsible for all of the new documentation about the influx of cocaine and crack into the inner cities, Mr. Gary Webb, is putting on the Internet every day updated information. Not only can you get the articles there, the series of articles he has done with all of his documentation, he is updating the information every day and, prior to the close of this hearing, with your permission, I would like to give out the Web site address so people can update themselves on the latest shocking information about the drug traffickers and who they are and their connection to our government.

Chairman BACHUS. Thank you.

Well, we are here today because 70 percent of the cocaine, 80 percent of the methamphetamine and foreign-grown marijuana and 30 percent of the heroin that winds up on American streets comes across the United States/Mexican border and it is something that we need to address.

With that, Mr. Barr, do you have any opening remarks?

Mr. BARR. Thank you, Mr. Chairman.

Lest the witnesses and the audience here today think they have traveled through a time warp and were back in 1987 and 1988 with

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the Contra hearings, let me put your mind at ease; we have not traveled through a time warp. Those hearings have nothing to do with what brings us here today.

Let me also assure anybody out there, witnesses or audience, that thinks they might have made a wrong turn, no you are not at the House Permanent Select Committee on Intelligence, nor are you in the Judiciary Committee. You are before a subcommittee of the Banking Committee and what brings us here today are matters that are relevant not to the previous remarks, but to the jurisdiction of this subcommittee, and that is money laundering, and money laundering, in particular, associated with the Mexican government and with Mexican narcotics and crime syndicates.

This is, indeed, a very serious problem. It is neither irrelevant nor minor. All of us here, I think, that really care about this problem understand that. Those of us with prosecutorial background certainly know it first hand. The witnesses today who are engaged in that fight with this Administration understand that as well, at least I certainly hope you understand that these matters are very serious, they are not irrelevant. There is much that has been done, but much that can be done and, with regard to Mexico in particular, I think we have some very serious problems. They are not new, although they are getting worse.

Despite a lot of the rhetoric that surrounded the debate over NAFTA that—one of the reasons to encourage Members to vote for NAFTA—was this would have a positive impact on drug trafficking between the United States and Mexico. It has not happened. I don't know why anybody would ever think that it would. It certainly has nothing to do with NAFTA.

Despite the fact that those who encouraged this Congress to bail out the Mexican economy over a year ago, that somehow this would also help reduce the crime problems, particularly drug trafficking and money laundering between the United States and Mexico, that hasn't happened. It has nothing to do with that.

One thing that disturbed me in reflecting today on some hearings that we held in the Banking Committee over a year ago were veiled threats by the Mexican government that if we did not assist them and bail out the Mexican economy through the legislation, the currency legislation the was passed last year, that we would see an increase in drug trafficking, and I found that particularly troubling.

The fact of the matter is that our laws and regulations to implement those laws with regard to money laundering in particular need to be looked at and I would hope that, again, despite efforts on the other side to divert our attention and to make this a partisan issue, that the witnesses would assist us in the effort to see if our laws are strong enough, if the regulations are strong enough, if there need to be adjustments made in appropriations and the way the appropriated monies are spent to strengthen our efforts to tackle this problem and not be drawn off track by efforts to make this a partisan issue or an irrelevant issue.

I think these hearings are very important. They are part of a long-term effort by the Congress and by the leadership of the Banking Committee and the leadership of this subcommittee to work constructively on these problems. There are some troubling

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questions, some of which the chairman has already alluded to, as to whether or not there should have been better efforts made over the years to strengthen our regulations to plug some of the loopholes in our money laundering statutes and perhaps the witnesses can assist us today in drawing attention to specific areas where we can strengthen them both, if necessary, through amendments to the statutes as well as through strengthening the regulations. And I share the chairman's comments on the regulations that may, at long last, be coming forward, better late than never, and we hope that those will help.

Because problems with regard to drug trafficking and money laundering with Mexico are very severe and they are not getting better, despite the continued rosy rhetoric from one Administration after another about how great the Mexican government is, and how wonderful it is to work with, and how much progress is being made.

There is no progress being made and, very frankly, I think it is time we take off the diplomatic gloves and tell the truth with regard to the problems. The problems with the Mexican government are very severe, the corruption problem, one doesn't even have to go back to the days when we had Enrique Camarane's cases. One simply has to look at the current state of affairs with the Mexican government and the corruption to know that we have a very serious problem.

I also suspect, perhaps, Mr. Chairman, that some of your statistics with regard particularly to heroin coming across may be even somewhat conservative. I talked with a number of drug enforcement folks and they are very, very worried about the increase in heroin, the "Mexican gum ball," brown heroin, coming across into this country and these are very serious problems and, although, again, these are not hearings to focus specifically on drug trafficking, there are very important matters tangential to that that relate to money laundering that are clearly within the jurisdiction of this subcommittee.

And I commend you, Mr. Chairman, for focusing our attention on these and look forward to the testimony from the witnesses to see what the specific problems are with regard to our laws and regulations to tackle this problem, what can be done from a diplomatic standpoint as well to help solve this problem and look forward to the questions and answers in addition to the statements from the witnesses.

Thank you, Mr. Chairman.

Chairman BACHUS. Thank you, Mr. Barr.

Mr. Wynn, would you like to make an opening statement?

And I would say, before you start, I had originally planned for the second panel to go first and then the panel which is first to go second and sort of answer some of the things they said, but Mr. Wynn, among others, pointed out that the protocol was to let the Agency witnesses go first and, as a result of Ms. Waters's staff and Mr. Wynn's pointing that out to me, I see Bill there, we did change that and we are glad to hear you all first.

Mr. Wynn, you can take some credit for that.

Mr. WYNN. Thank you, Mr. Chairman.

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Let me begin by thanking you for making the adjustment in the order of testimony. I think it is appropriate to hear from the Administration first and that has been the traditional protocol in this institution.

I won't take long. I will be very brief because we have been here almost an hour and we haven't heard from a single witness and that is the most important agenda item today.

I do want to take a moment to indicate that I fully support and concur with the statements of my colleague, Ms. Waters. She raised some very important, I believe, critical issues. In fact, if we had gotten to the root source of the drug trade, we would not be dealing with the somewhat ancillary issue of money laundering.

I don't think we can hide behind questions of subcommittee jurisdiction and ignore the fact that apparently there has been some complicity by U.S. agencies in the origins of the drug trade in South-Central Los Angeles and around the country. We also cannot hide behind jurisdiction and ignore sentencing disparities which are abundantly clear and which an impartial panel concluded were, in fact, discriminatory.

Having said that, I do believe this is an important hearing. I would only say to the chairman and other members of the subcommittee that, in addition to looking at the question of money laundering in Mexico, that there has been evidence of involvement by other countries, such as Chile, in the money laundering business, and that we also ought to look at other countries in South America as well and, perhaps, make a more exhaustive consideration of this issue.

But, basically, Mr. Chairman, I think it is good that we are proceeding. There is certainly a political dimension to this and that cannot be ignored. This issue apparently didn't get on the radar screen until the elections got well under way. But, be that as it may, it is an issue that deserves consideration. I look forward to hearing the witnesses.

Thank you.

Chairman BACHUS. Thank you, Mr. Wynn. I will say that this subcommittee, under Chairman Gonzalez, actually started pursuing many of these regulations years ago, so this issue has been on the radar screen for some time.

With that, we will hear from the witnesses. We are going to go from my left to right. Mr. Weise, if you will start.

I was asked by the staff to ask you all to limit your remarks to five minutes but, you know, I can't in good faith do that, so I am just going to say to take what time you feel necessary.

STATEMENT OF GEORGE J. WEISE, COMMISSIONER, U.S. CUSTOMS SERVICE

Mr. WEISE. Thank you, Mr. Chairman. And I would ask the subcommittee for permission to have my complete statement in the record and I will attempt to limit my oral statement to something around five minutes.

Chairman BACHUS. So granted, and all you gentlemen have that right.

Mr. WEISE. Thank you very much.

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Mr. Chairman, members of the subcommittee, it is a pleasure to be here today to discuss with you one of the critical components in the campaign against drug smuggling and drug use. I would like to join with the comments that have been made by the members on the dais that this is not a partisan issue and should not be a partisan issue. I appear before you not only as the Commissioner of Customs, but as a parent of two teenage daughters. This is a serious American problem and we all need to work together if we are going to address and solve the problem.

The role of the U.S. Customs Service in this campaign is absolutely vital. Our job is to stop illegal drugs from coming into this country and to keep the profits from illegal drug sales from going out. Both tasks are equally important because drug smuggling and money laundering represent the flip sides of the same criminal coin.

It is important for all of us fighting drug smugglers to bear in mind that drug smuggling is a business, an illegal business, a deadly business, a morally repugnant business, but a business nonetheless. The bottom line for the organizations which smuggle illegal drugs are profits. When we deny them these profits, we deal them a major blow.

From the perspective of a drug smuggler, it is far better to lose 75 kilos of cocaine coming into the U.S. than to lose the one million dollars in profits these drugs generate. It is far easier and less risky to produce the cocaine than the one million dollars of profit.

Among the family of Federal law enforcement organizations, Customs has been a pioneer in developing investigative techniques to uncover money laundering operations. And, as drug smuggling has emerged over the years as a huge criminal threat, Customs undercover money laundering work has provided an extremely effective method of striking back at the Colombian and Mexican smuggling organizations behind the threat.

Both drug interdiction and identifying and seizing laundered narco profits pose tremendous challenges, but I believe Customs is meeting these challenges with a fine record of success.

An example of this success took place just two weeks ago as you mentioned, Mr. Chairman, in your opening remarks, when Customs special agents and inspectors, working in tandem with our counterparts in the Drug Enforcement Administration, seized $6.6 million in drug cash well hidden in 40 cartons of electronic equipment bound from Miami to Cali, Colombia.

As part of the investigation by our New York and Miami field offices, it was found that the shipper had sent a seagoing vessel earlier in the week containing what we thought might be similar merchandise. Using Customs' unique search and redelivery authority, we were able to get this shipment back to Miami where inspection uncovered an additional $9.2 million in cash. The total of more than $15 million is one of Customs' largest drug cash seizures ever. It was a good week for Customs and U.S. law enforcement generally, and it was a very bad week for the drug lords in Colombia.

Although there is hard evidence showing that drug smugglers are expanding away from the Southwest border to easterly points along our southern tier, smuggling activity along the Mexican

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border continues to pose a substantial danger. The same can be said of money laundering.

Customs has developed a multi-faceted approach to address money laundering in Mexico that involves both interdiction by Customs inspectors and criminal investigations by our special agents. We are also participating in training and legislative initiatives designed to better equip both our Mexican counterparts and the Customs Service to combat money laundering.

Approximately one-third of the total number of Customs undercover money laundering operations in this fiscal year are either being conducted near the Southwest border or involve Mexican drug trafficking organizations. The key to this effort is an aggressive asset identification and removal program.

Put into effect in fiscal year 1995, the program involves 12 highly-trained groups of special agents, data analysts and auditors. Half of these groups are either located on the Southwest border or focus the majority of their work on Mexican crime organizations that exploit both the Mexican and United States financial systems. These groups are strategically located in El Paso, Tucson, San Antonio, San Diego, Houston and Los Angeles. Since beginning operations, they have opened 335 investigations that have yielded approximately $28 million in seizures.

In addition a U.S. Customs attaché posted in Mexico City has a close working relationship with the Mexican government. Our attaché is a significant point of contact on money laundering issues and has received a number of requests for joint investigative activity between the United States and Mexico, leading to 57 such investigations in the past 3 years.

Drug smugglers sometimes resort to very complicated methods of laundering their profits. And then, again, as a Miami example illustrates, they sometimes resort to smuggling bulk currency. This is the riskiest means of laundering funds. Illegal drug sale currency literally outweighs the product it represents. But it is also the simplest means of laundering drug money.

In fiscal year 1995, Customs officers together with State and local law enforcement and National Guardsmen spent over 26,000 hours engaged in our outbound enforcement effort. We expect to triple those efforts this year.

To further improve this process, Customs is building a prototype facility in Laredo, Texas. This will be used by our inspectors who want ready access to computer terminals to more intensely examine selected outbound vehicles and passengers. What many people don't realize, Mr. Chairman and members of the subcommittee, is that we do have very adequate inspectional booths for imports, but the folks that are out trying to do the outbound inspections are standing in the middle of the highway with vehicles coming at great rates of speed and they are in great peril. We are attempting to modify that by getting the physical facilities necessary to be able to carry out these outbound enforcement actions.

Our ability to stop money laundering in Mexico and along the Southwest border may significantly increase thanks to recent anti-money laundering legislation enacted by the Mexican government. This law, which went into effect on May 14 of this year is very similar to the U.S. Money Laundering Control Act of 1986 and

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appears to have been modeled after our legislation. One key distinction, however, is that in the Mexican law, the burden of proof to show the legitimate origin of seized currency shifts to the claimant. In other words, it is up to the owner of the money to show that it came from a legitimate source, not up to the Mexican public minister to demonstrate that the source is an illegal one.

Customs has a highly successful record in the area of uncovering drug money laundering operations on the Southwest border and elsewhere. Since fiscal year 1991, we have seized nearly $200 million in financial assets from Mexican drug smuggling organizations. It is a fine record, but, like every other element in our country's campaign against drug smugglers, it is a record which we must consistently and constantly strive to improve upon.

I am not satisfied with the data that you reflect upon in your statement, Mr. Chairman. We can and we will do better.

Drug smuggling organizations are rich, ruthless and resilient. Ultimately, to win this fight, we must seek not just to keep pace with them but, in fact, run several steps ahead.

I thank you, Mr. Chairman and members of the subcommittee, for the opportunity to talk about Customs and Federal law enforcement efforts in addressing the vitally important issue of drug smuggling and its criminal sibling, money laundering. Thank you, Mr. Chairman.

[The prepared statement of Mr. George Weise can be found on page 146 in the appendix.]

Chairman BACHUS. Thank you.

Mr. Morris.

STATEMENT OF STANLEY E. MORRIS, DIRECTOR, FINANCIAL CRIMES ENFORCEMENT NETWORK

Mr. MORRIS. Thank you, Mr. Chairman and members of the subcommittee, for providing the Financial Crimes Enforcement Network an opportunity to discuss its response to problems with Mexico and Mexican money laundering.

This topic, as has been pointed out by both the chairman and members of the subcommittee, is timely, and timely not just because of the Jack Anderson column in today's *Washington Post*. The problem is real and the solutions to the problem can only be found through the combined knowledge and experience of all of us who share a common objective, the objective of depriving drug dealers of huge illegal profits realized at the expense of our Nation's citizens.

Attacking the drug trade and other organized crime by focusing on the driving force behind such activity, monetary greed, is a strategy which is showing some results. As the chairman noted in his opening remarks, effective regulation, detection and enforcement in this country over the past 10 years have indeed made it more difficult to launder money easily through the U.S.' financial institutions. As a consequence, criminals have been forced to move south of the border, increasing money laundering in countries such as Mexico, which have not until very recently, as Commissioner Weise pointed out, made adequate efforts to adopt money laundering policies.

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Before I discuss what we are doing in concert with other U.S. agencies to address the problems associated with Mexico's drug-related money laundering, let me briefly describe our mission.

As its name applies, the Financial Crimes Enforcement Network is a network, a link between law enforcement, financial and regulatory communities. We bring together government agencies and the private sector to identify ways to prevent and detect financial crime. Our unique staffing emphasizes its network approach. In addition to our permanent work force of about 200 individuals, approximately 40 additional people from about 21 different regulatory and law enforcement agencies are assigned to us on long-term details.

We serve as a network in several ways. First, we provide analytical case support through the use of state-of-the-art technology and intelligence analysis to many Federal agencies, including the U.S. Customs Service, the Drug Enforcement Administration, the Secret Service, the IRS' criminal investigation division, the FBI and others.

We are a regulator, responsible for administering the many laws that this subcommittee has provided leadership over the years, all found within the Bank Secrecy Act which, as the chairman pointed out, is a key component of this government's effort to fight money laundering.

And, finally, in response to the growing international dimensions of money laundering, FinCEN promotes global efforts to build effective money laundering policies in cooperation with other nations. As Congressman Wynn pointed out in his opening remarks, this is indeed a very important effort.

To put the issue of money laundering in perspective, it is important to take a look at the enormity of the world's financial systems to understand the complexity of this issue and how difficult, indeed, it is to attack illegal activity and dirty money.

A decade ago, daily trading in currencies was approaching the sum of $200 billion. That is daily trading. Today it is more than six times as much, one-and-a-quarter trillion dollars a day, 100 times the volume of world trade.

Another illustration of the complexity of the problem centers on wire transfers, the systems which move funds between financial institutions. Electronic wire transfer systems handle a daily volume of 750,000 transactions, including more than two trillion dollars around the world each day.

A few more numbers. There are about 19,000 banks and credit unions in the U.S. alone. The number of what we call non-bank financial institutions in the U.S. is approximately a quarter of a million. This category includes check cashers, currency exchangers, money transmitters and money order sellers. We can also add 6,000 broker/dealers, and 800 casinos.

As you can see, the avenues for money launderers are vast, with many opportunities to hide illegal activity in the midst of legitimate commerce.

I rattle these numbers off to give you some context for evaluating our efforts to prevent and detect money laundering in this country and other regions of the world. Let me turn to Mexico.

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Treasury's efforts to address the problems associated with the Southwest border and Mexico involves both the interagency process and initiatives to forge cooperative alliances in this hemisphere and throughout the world. As trouble spots such as the Southwest border are identified, FinCEN uses its databases and its sophisticated technology to provide law enforcement with useful analyses and information regarding illicit financial activity.

In the case of the Southwest border, we recently instituted a suspicious activity reporting system or SARS, which is providing our analysts for the first time the ability to obtain a more comprehensive assessment of money laundering activity in the border region. This system merged and, indeed, revolutionized six older, paper-based reporting systems which had been in place for more than a decade. Two laws passed by this subcommittee, one in 1992 and another in 1994, provided the foundation to permit the creation of this important new database.

The activity reported under this suspicious reporting system includes, among other offenses, bank fraud, misdeeds by bank officials, tax fraud, check kiting and money laundering. In the 5 months since the system has been operational, over 18,000 reports have been filed in a single database. Our analysts are now able to use that data to establish a threat assessment which we just completed for the Miami area. We are conducting one in partial response to the queries raised by former Chairman Gonzalez for the Southwest border, both as it relates to Texas as well as the other three States along the Mexican border.

We are also identifying ways that these reports can be used to assist us in taking new and more creative approaches to old problems. For example, as was pointed out by the chairman and by Congressman Barr, a money laundering scheme associated with foreign bank drafts in Mexico was identified by FinCEN, Customs and DEA about 5 years ago. As the chairman noted, these instruments are used by money launderers to easily and quickly recycle narcotics proceeds back into the U.S. financial system.

FinCEN sought the authority in 1994 to require reporting of cross-border transportation of those instruments under the Report of International Transportation of Currency or Monetary Instruments, commonly referred to as CMIR rules. However, as we began work on drafting a notice of proposed rulemaking, we learned more about the issue and we refined other regulations governing financial reporting requirements.

It became clear to us that the approach we were taking with the rule did not really get to the root of the problem, which was tracking the funds into the U.S.. Why? When the problem was first addressed, there was no SARS system in place, there was no suspicious reporting system, there was no way to communicate to the banks to get information back on illicit activity going on.

The most logical tool at our disposal at the time was consideration of a blanket reporting requirement, an approach which we thought could be too sweeping and perhaps too difficult to monitor effectively. The issues of definition are very, very complex and we cannot simply say a Mexican bank draft shall be reported. Clearly, the commercial assets of this issue are complex. The nature and changing way in which technologies are adjusting relationships

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between financial institutions requires a careful regulatory approach if we are going to get the needle we want to focus on and not destroy the haystack in the process.

I might also note that our trading partners in both Canada and Mexico expressed fears that sloppy regulation in this area could be used to undermine legitimate commerce.

Now that the SAR system is operational, we believe it can be used in some effective ways to target suspicious use of bank drafts when they are negotiated back into our financial institutions and provide us valuable data to track down suspicious movements of funds from Mexico back into the United States.

We will, however, also be proposing regulations, narrowly we hope, to include a reporting requirement for certain foreign bank drafts, but done in such a way as to minimize the avenue of money laundering, but not disrupt legitimate commerce.

FinCEN has used its regulatory authority to carefully craft rules which will serve law enforcement needs without imposing undue burden on the financial community or, as I pointed out, legitimate commerce. We want the financial community to be free to do what is most important for it, which is to report suspicious activity to law enforcement, activity for which there is no reasonable explanation, not just report useless information for the sake of reporting.

As advocated by Congress and made very clear in the legislation that this subcommittee provided such leadership for in 1994, regulations should be carefully applied and used only when all other avenues have been sought and determined to be inadequate.

And we have moved, I admit, Mr. Chairman, cautiously as we have with all of our regulatory tools that this subcommittee has provided us, from regulating casinos on tribal lands to implementing rules which went into effect a few months ago. These relate to wire transfers between financial institutions throughout the U.S.. These rules were very complex but you probably didn't hear very much about them because they went into effect quietly. This was in a large part because they were developed very closely with the industries that would be required to comply with them.

We are taking our regulatory know-how and sharing it with the government of Mexico as part of an interagency bilateral effort which includes the Departments of State, Justice and the Office of National Drug Control Policy. Interagency experts are working with our Mexican counterparts to provide advice regarding new legislation and implementing regulations, improving auditing procedures and providing legal, as well as technical, training.

This progress is an encouraging sign—many in the Mexican government want to cooperatively address the money laundering problem. However, we believe Mexico must do more to implement a meaningful, comprehensive anti-money laundering program and it needs to move quickly. The problem that exists in Mexico is a creation, in some regards, of the successes that we have made in the United States. With respect to the status of Mexico's anti-money laundering legislation, as Commissioner Weise said, the legislature did pass a law in May of this year, the Penal Reform Bill, which, for the first time, criminalizes money laundering.

At the end of August, Mexico completed a draft of a mandatory suspicious transaction reporting regulation patterned after the

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program that I outlined previously. These are positive actions. However, FinCEN and Treasury were disappointed to learn that the Mexican Congress did not act on the organized crime legislation pending before its extraordinary session of Congress which was held this summer. That legislation, if enacted, would provide law enforcement in Mexico with broad, new tools which we think are important to deal with the drug problem as well as with the money laundering problem. The new Mexican Congress came back on the first and we are urging, and will continue to urge, passage.

In addition, we are somewhat puzzled by the Mexican government's reaction to issues surrounding membership in the Caribbean Financial Action Task Force. A cornerstone of the organization's approach is to encourage compliance with an agreed-upon series of anti-money laundering recommendations through a process known as "mutual evaluations." These evaluations require countries who are members of that task force to undergo a review of their process in implementing anti-money laundering standards and that review is conducted by a team of experts from other nations. The U.S. has undertaken a review like this a couple of years ago and will be undertaking a new one at the end of this year. Panama, the Bahamas, and Costa Rica have also undergone such a review.

However, Mexico is currently objecting to such a commitment on the grounds that it violates national sovereignty. We urge the Mexican government to reconsider its' hesitancy in undertaking such anti-money laundering obligations.

In spite of these conflicts there are, however, some positive signs in the private sector in Mexico, particularly in the banking area. And we have been encouraging the Mexican government to integrate its financial institutions into an anti-money laundering strategy. We believe, in the U.S., we have an excellent model to showcase as an example. We have learned from experience that the private financial services sector is a critical component in a country's policy to prevent and detect money laundering.

Treasury has energetically cultivated a strong and, I think, effective working relationship with the U.S. banking industry. U.S. banks and other financial institutions are active and invaluable partners in our fight to stem financial crime. They are, indeed, the first line of defense and our banks in the U.S. are providing law enforcement, through the various systems I have described, with important information that makes it increasingly difficult, increasingly more risky and increasingly more costly to launder money in the U.S..

In December of 1995, Secretary Rubin took the process a step further, chairing a ministerial conference in Buenos Aires attended by 29 of the original Summit of the Americas participating nations. Some important results have come from that already: a commitment to criminalize money laundering beyond drugs, a commitment to require suspicious reporting and, for the first time, a commitment by the Inter-American Development Bank to finance a comprehensive training and technical assistance program to support nations throughout this hemisphere in their implementation and commitments to the Buenos Aires Communique. The Departments of State, Justice and Treasury are actively involved in efforts

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throughout the region in providing training and technical assistance to several participating countries which have already expressed an interest in establishing financial intelligence units and better data systems.

In closing, Mr. Chairman, Secretary Rubin and Under Secretary Kelly have established anti-money laundering at the Treasury Department as a very, very high priority. Our goal is to promote the adoption of effective anti-money laundering standards worldwide by encouraging and, when circumstances warrant, applying international pressure on governments and financial institutions to cooperate in this common battle.

We are encouraged to see that the international financial services community itself is recognizing the importance of maintaining sound financial controls to prevent the corruption of its institutions. Central banks, finance and justice ministries, multilateral development banks, as well as law enforcement from all parts of the globe, are looking to the U.S. for guidance and leadership in establishing anti-money laundering programs, an indication that our message is gaining "currency."

While much more needs to be done, we think steady progress is indeed being made and we would like to thank this subcommittee for its leadership in the past and look forward to working with it in the future.

Thank you.

[The prepared statement of Mr. Stanley Morris can be found on page 86 in the appendix.]

Chairman BACHUS. Thank you, Mr. Morris.

Mr. Marshall.

STATEMENT OF DONNIE MARSHALL, CHIEF OF DOMESTIC OPERATIONS, DRUG ENFORCEMENT ADMINISTRATION

Mr. MARSHALL. Good morning, Mr. Chairman, members of the subcommittee.

I appreciate the opportunity to appear here. I thank you for your kind invitation and hopefully I will be able to share some of my knowledge and viewpoints with the subcommittee.

I have submitted a lengthy written statement for the record and I will attempt to summarize that here this morning. Before I begin, I would like to just comment on a personal note that as a parent, I do share many of the concerns stated by the chairman concerning the drug abuse situation in this country. As a law enforcement professional, I must say I appreciate the interest of this subcommittee in this problem. I thank you for your support and we would appreciate any suggestions or assistance the subcommittee may have to offer.

The 2,000-mile stretch of land along our southern border has become the focal point of drug trafficking in the U.S.. Much of the land along the border is desolate and very sparsely populated. It is hard to really appreciate how desolate and sparsely populated unless you have actually been there or worked on the border. This creates a formidable challenge for law enforcement in every State which shares a common border with Mexico.

Murders, crime and violence have become a reality in many communities in the southwestern U.S., and the vast majority of these

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crimes are drug related. The organized drug traffickers from Mexico are becoming more brazen and more violent, threatening and intimidating American ranchers, terrorizing local communities and encroaching on American soil.

The cocaine trade in the U.S. is now primarily controlled by organized criminal groups in Mexico; 60 to 70 percent of the cocaine entering the United States comes through Mexico. Mexican traffickers have become a dominant force in methamphetamine production and trafficking. Methamphetamine seizures along the southwestern United States border with Mexico rose from 6.5 kilograms in 1992 to 665 kilograms in 1995. Mexico also accounts for upwards of 50 percent of the marijuana available in the U.S..

Mexican heroin is the most prevalent form of heroin available in the western U.S. and it accounts for a large percentage of the heroin sold in other parts of this country.

As a result, the Mexican trafficking organizations have generated a tremendous amount of wealth and power and money to launder.

There are four major criminal groups from Mexico that control the vast majority of heroin and cocaine trade in Mexico. Those would be the Tiajuana Organization, the Sonora Cartel, the Juarez Cartel and the Gulf Group. A fifth criminal group, headed by the Amezcua brothers, is responsible for virtually all the methamphetamine imported into the United States from Mexico.

Drug trafficking is a multi-billion dollar business which is fueled by huge profits. Without these profits, the traffickers cannot finance the manufacturing, transportation, smuggling, distribution, murder and intimidation that are essential to the drug trade. With the tremendous profit comes an absolute necessity for the traffickers to launder their illicit funds.

In order to operate their organizations and maintain their power, the traffickers must return the cash proceeds from their drug sales to their own country. They must make the proceeds appear to be legitimate income and they must protect the money from discovery and seizure by law enforcement officials.

Although Colombian traffickers faced many difficulties and vulnerabilities during the initial placement phase of the money laundering process, Mexican traffickers and syndicates do not face some of those same difficulties. Due to the vast land border separating the United States from Mexico, the Mexican traffickers simply smuggle the bulk shipments of cash across the border, very often in vehicles and very often in the same vehicles that have been used to smuggle drugs into the United States from Mexico.

During the months of April, May and October of 1995, Mexican authorities, as an example, made three seizures of outbound U.S. currency which totaled nearly $20 million. That was money going from the United States into Mexico. Mexico returns more surplus currency to the United States than any other country. Millions of dollars are being laundered by the Mexican trafficking organizations.

A preliminary analysis of transactions between San Antonio Federal Reserve Bank and area depository institutions shows a currency surplus in the San Antonio area of $2.96 billion in 1995, which is an increase of nearly $900 million from the surplus measured in 1994.

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The primary goal of the money launderer is to legitimize his income. Service-oriented businesses with a high cash flow have long been used to successfully funnel drug proceeds which may then be claimed as a legal profit. Businesses on both sides of the United States and Mexican border are being used to launder money by over-invoicing to legitimize drug-related proceeds.

Getting volumes of cash into the U.S. banking system is also a primary goal of money launderers. Once the cash has moved into the banking system, it can very easily be manipulated throughout the financial infrastructure to areas all over the world. Although the U.S. has enacted laws which place a reporting requirement on financial institutions dealing in large cash transfers, Mexican authorities just recently passed money laundering legislation which is awaiting implementation.

Money laundering activities can be basically divided into three stages: the placement, the layering and the integration. In the placement stage, the money launderer attempts to place the funds into a financial system undetected or to physically transport the cash outside of the U.S.. For the Mexican trafficker, this can be accomplished through relatively simple and direct means.

Bulk shipment of U.S. currency is one of the most widely used methods. The currency is concealed and transported either by money courier or secreted in outbound cargo. This is done by using air freight forwarders, overland or commonly, as I mentioned, in the same vehicles that transport the drugs into the country.

Very often, Mexican traffickers will use women and children to transport their currency to alleviate suspicion at checkpoints along the border. The trafficker and the currency are most vulnerable to detection and seizure during this placement stage. This stage is currently the main focus of law enforcement efforts along the Southwest border. Once the money is smuggled across the border, Mexican traffickers can place it into Mexican financial institutions with relative ease.

The second stage of laundering occurs once the funds reach a financial institution and undergo a series of financial transactions which resemble legitimate financial activity. The ultimate goal of this phase is to make tracing the funds back to its dirty source virtually impossible.

Finally, the money launderer integrates the illicit funds into the economy, and at this stage he is able to increase his wealth and power by purchasing land, businesses, luxury items and making payoffs to corrupt law enforcement and political officials who have aided his illegal activities.

The proximity of Mexico to the United States readily allows for the simple movement of drug profits through bulk shipments back to the drug syndicates in Mexico and there is very little risk to this. Once the currency is delivered into Mexico, then a variety of alternatives for laundering are available to the drug syndicates.

The casas de cambio system—or money exchange house—is readily available for the exchange of dollars into pesos. These casas also function as a parallel banking system in Mexico which, in addition to the currency exchange, has a capability of wire-transferring funds into the worldwide banking system. These exchange houses serve as an alternative to the official banking system in many of

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these countries. They provide currency conversion, exchanges and money movement services for a fee. Mexican immigrants, for instance, have traditionally used this system to send American-earned dollars back to Mexico to support their families.

The services of these cambios are sought by legitimate businesses as well as the narcotic trafficker. In Texas alone, 75 money exchange houses have been licensed by the State banking commissioner. The rise in casas de cambio has been brought about by the huge demand for conversion of U.S. dollars into pesos and most of this has been derived from drug trafficking.

Large-scale criminal organizations have developed systems such as this to launder large amounts of drug currency throughout the world. Just as in the United States, Mexico has no reporting requirements for wire transfers, regardless of the amount. The net result is that once the proceeds are deposited into either the Mexican banking system or a casa de cambio and the wire transfer process begins, the funds are nearly impossible to track back.

Many money launderers have found that the Mexican bank draft system is the instrument of choice for returning dollars to the U.S. as legitimate income for a variety of reasons. Each year, there are over 500,000 bank drafts drawn on Mexican banks and these enter the U.S. each year. One bank in Arizona determined that the average Mexican bank draft was valued at about $65,000, however I have been told it is not unusual for drafts to be in amounts in excess of $200- to $400,000.

In Mexico, when a large amount of U.S. currency is deposited, there is no currency transaction report, as has been mentioned by one of the other witnesses. The bank, in turn, issues a bank draft which is drawn on an account in a U.S. bank that is held by the Mexican bank.

The Mexican banking sector easily and conveniently absorbs the cash from traffickers who have established commercial fronts in Mexico. As I mentioned, there are no CTR requirements in Mexico and therefore monitoring and reporting of suspicious transactions is virtually non-existent. Although illicit enrichment is illegal and money laundering is a criminal offense in Mexico, money laundering is still prevalent there.

During May of 1996, the government of Mexico made significant changes in their current anti-money laundering legislation. They criminalized money laundering in a two-part package. The Penal Reform Code made money laundering illegal and enhanced penalties of 5 to 12 years in prison. The second part of the legislation, the organized crime bill, would authorize wire taps, undercover operations, the use of informants, a witness protection program and other investigative tools in Mexico.

The passage of this portion of the overall legislation was scheduled for Congress this summer, although we have been advised that it was not passed. It will be on an agenda for the fall session which resumes this month.

During July of this year, a U.S. Government team met with officials in Mexico. Officials from various U.S. agencies—they met with officials from various agencies that oversee the Mexican banking industry and they are in favor of regulations requiring the reporting of suspicious transactions and they have indicated that they ex-

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pect the regulations to be drafted by late summer or early fall and enactment is hoped for by December of this year.

One troublesome issue that arose during these meetings and about this legislation is there are currently no sanctions against financial institutions who fail to report suspicious transactions. To be truly effective, it will be essential for the government of Mexico to establish sanctions for the non-reporting of suspicious transactions and to enact legislation mandating currency transaction reporting requirements. This will allow law enforcement authorities in Mexico to attack these groups while their profits are still vulnerable.

In concluding, I would say that for almost 30 years, Mexican trafficking organizations have been very adaptable, persistent and savvy in the ways that they have met the drug market dynamics. The Mexican trafficking groups are becoming almost as powerful and insidious as their Colombian counterparts.

The government of Mexico, we believe, needs to be vigilant and maintain a strong law enforcement pressure against these major trafficking organizations. Unless tough law enforcement measures are in place to arrest and imprison major traffickers, seize their assets and halt money laundering, Mexico will continue to face threats posed by international drug organizations.

DEA and other Federal agencies have a Southwest border initiative which integrates Mexican forces with Federal, State and local law enforcement agencies from the United States. This strategy is moving forward to target the activities of major Mexican drug traffickers operating along the United States and Mexico southwestern border. This commitment of manpower and resources will be DEA's top priority over the next 5 years as we work with Mexican counterparts to dismantle the trafficking organizations responsible for much of this crime and violence plaguing our country today.

The leaders and members of the five major trafficking groups in Mexico must be arrested, they must be jailed in secure prisons and they must be prohibited from continuing their criminal drug related enterprises from within the prison walls. Again, Mr. Chairman and members, I thank you for the opportunity to appear here and we will be happy to answer any questions that you may have.

[The prepared statement of Mr. Donnie Marshall can be found on page 98 in the appendix.]

Chairman BACHUS. Thank you, Mr. Marshall.

Mr. Winer.

STATEMENT OF JONATHAN WINER, DEPUTY ASSISTANT SECRETARY, INTERNATIONAL NARCOTICS AND CRIME, DEPARTMENT OF STATE

Mr. WINER. Thank you, Mr. Chairman.

As you said at the opening of this hearing, the illicit drug trade is corrupting. It is, in fact, the most corrupting of all illicit trades, damaging families, the community and threatening to damage literally every public institution in every country in the world. It is a battle in which everyone is a soldier; there are no bystanders. We have all, regardless of where we sit and what job we have, whether we're public sector, private sector, anywhere else, have to be enlisted in the mission of fighting this absolutely pernicious evil.

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When Secretary Christopher became Secretary of State, he made it his mission for there to be an Americas desk at the Department of State. The Secretary wanted to be sure there were people at the Department of State whose first mission was not to focus on any foreign country as a client in any sense, but to focus on the American people as the primary, principal, main clients of our foreign policy. As we think about the narcotics trade and drug money laundering and the subject of this hearing today, we think of ourselves as the Americas desk, whose responsibility is to protect American citizens.

Your focus on the money is, we think, very well taken. I recollect two different interviews I had with major drug traffickers, one of whom told me the first shipment he ever brought up to the United States from Colombia was intercepted by U.S. law enforcement. He was all worried about it, he went back down to his dope suppliers in Colombia. They said, "Hey, no problem, we'll give you another shipment. So long as you can make the money, it's no problem; we can give you as much as you want."

The second shipment was successful. He paid them off the first shipment and the second shipment, went right on into business and became a major drug trafficker until he wound up ultimately spending a lot of time in U.S. jails.

Another gentleman who I talked with, a major money launderer for the Medellin cartel said, "Hey, this dope is garbage when it's in Colombia, it's garbage when it's in Latin America. When it comes to the United States, it's gold." So focusing on the gold, going for the gold, is precisely one of the critical tasks we have before us if we are going to deal with this trade.

Which brings us to the next question, why Mexico and why money laundering in Mexico? Mexico has several problems simultaneously which all come to bear and make it a major money laundering market. First, there is the border, 2,000 miles as my predecessors have described. It is a big, porous border. It is hard to police. You can bring bulk currency across the border. Not enough people there to stand every mile to stop those movements of bulk currency, big problem for Customs, very hard to stop.

Second, you can deposit money in Mexico anonymously. There has effectively been no money laundering regulation there. As my testimony is going to suggest, that is beginning to change. There have been some important developments within the last year, but you have been able to deposit currency anonymously. Big opportunity. Big border. Anonymous accounts.

The third problem is the regulations and laws that have been in place have not been fully enforced because Mexico, according to Mexican officials, has a big corruption problem. Big border, anonymous deposits, corruption. Not a good recipe for success in fighting money laundering.

So as this Administration came in and looked at this problem, we decided that it was really very important to enhance anti-money laundering capabilities on both sides of the border. The initial efforts to do so were hampered by Mexico's slow progress in developing a comprehensive anti-money laundering regime of its own. It is not enough to have it in the U.S.. Our partner countries have to have effective anti-money laundering regimes as well, otherwise

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the money gets placed there. We stop placements here, it goes outside, so you have to deal with the placement problem hemispherically, not just unilaterally. You have to get all of your partners to do it as well.

Ultimately, in Mexico, it will be the aggressive enforcement of strong laws and regulations in Mexico that will allow it to become a fully effective partner in the global fight against money laundering. We have, therefore, redoubled our efforts to work with Mexico to develop this comprehensive regimen. Our efforts have centered around two Presidential initiatives that I would like to discuss.

President Clinton directed last fall that Treasury, in consultation with State and Justice, identify countries which have the most serious money laundering problems and pursue appropriate measures to address our concerns. It is not just Mexico, not just the hemisphere, literally identifying where our worst problems were and entering into discussions with these worst problems.

As we developed a strategy, it became clear that in Mexico, money laundering controls had to be part, a central part, of a comprehensive drug control effort. Since President Zedillo took office in December 1994, Mexico's counter-narcotics efforts have intensified in eradication, law enforcement action, interdiction and judicial sector reform. In March, 1995, President Clinton and President Zedillo established a high-level contact group to ensure important areas of the bilateral relationship, including money laundering concerns, receive regular attention at the most senior levels of government. Both to press for greater cooperation and to work to resolve disputes.

Our efforts to engage Mexico in these related Presidential initiatives have had some impact. In May 1996, after years of inaction by previous governments, the Zedillo Administration enacted a bill establishing money laundering as a criminal offense punishable by 5- to 15-years imprisonment. This legislation has important features that will strengthen the Mexican government's capability to detect, investigate and prosecute money launderers. It includes a wide range of predicate offenses beyond drug trafficking, which has been a big issue for us with a number of other countries, countries who criminalize only drug trafficking and money laundering. Under such circumstances, the law enforcement officials have to show that the drug money, millions and millions of dollars, came from narcotics, as an extra element of the offense, which can be hard to prove. Mexico passed a much broader law than that, which is very important.

In addition to the May 1996 money laundering legislation, the Mexican government has submitted to the Mexican Congress a critically important legal package aimed at enhancing the government's ability to combat organized crime. We hope this important bill will pass soon so that the government of Mexico can begin work on drafting and implementing regulations and can begin training its law enforcement personnel on how to use the criminal prosecutorial tools it offers. The Mexican government also has advised us of its intention to set up systems of checks and balances and other controls to prevent abuse of the new authorities by corrupt or overzealous Mexican government personnel. The U.S. has offered to provide training and technical assistance as part of a bilateral plan

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being developed under the auspices of the United States/Mexican High-Level Contact Group on Narcotics Control.

The Zedillo Administration has expressed its recognition of the importance of developing an adequate reporting system for financial institutions. The Mexican government is drafting regulations to require banks and other financial institutions to report suspicious transactions and large currency transactions to government authorities. The Mexican government has established January 1997 as the effective date for the suspicious transaction reporting requirements, to be followed next year with regulations for currency transaction reporting.

So what you have is a legislative effort followed up by a regulatory effort and a rulemaking effort which has to be followed up by an enforcement effort. What you have is a situation in which you can point to particular actions that are being taken right now, but not a situation where you can point yet to prosecutions and actions to take into completion. It is something that we are all going to have to watch very carefully.

Any discussion of Mexican law enforcement efforts must also address the Zedillo government's efforts to counter and control corruption. Both President Zedillo and Attorney General Lozano have publicly acknowledged that official corruption is a serious problem in the Mexican justice sector and they are taking measures to counter it.

This was a major objective of the reorganization of the Justice Ministry or PGR in 1995. The firing of over 1,200 Federal police agents in Mexico, 1,200, is the second such mass dismissal since President Zedillo took office. This is a potentially promising development.

We recognize, Mr. Chairman, that Mexico's recent legislative and other actions are not, themselves, enough to address the threat of money laundering. The true test of the Zedillo Administration's willingness to combat money laundering is whether it will take concrete steps to adequately implement the new laws, to adopt needed regulatory reform, to supervise the financial system, to prosecute and convict money launderers in Mexico and to seize and forfeit trafficker assets. It is in these areas that the next phases of our diplomatic efforts are focused.

The road ahead. In the upcoming weeks and months, we will continue to move to address money laundering in Mexico. We will maintain our bilateral dialogue with Mexico, supporting that dialogue through technical assistance and training and also engaging in some multilateral activities.

The bilateral dialogue is concentrated in the high-level contact group process. This group has already met twice this year and will reconvene on a regular basis to further discuss issues such as information sharing, legislative and regulatory reforms, training and technical assistance and money laundering methodologies. We will support the bilateral discussions with targeted training and technical assistance, which is a critical component of our foreign policy as it relates to overseas law enforcement.

We consider such assistance critically important, especially important in the anti-money laundering field since these investigations in most instances are extremely complex and time consuming.

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At the same time, we recognize resources are limited and we have to coordinate this assistance among the multiple U.S. law enforcement agencies that have expertise in this area.

In summary, Mr. Chairman, money laundering activity in Mexico poses a real threat to the national security of the U.S. but it is an even bigger threat to the people of Mexico and their financial system. Only through effective law regulation, law enforcement and cooperation on both sides of the border will we be able to fight the drug traffickers and money launderers simultaneously.

Thank you very much.

[The prepared statement of Mr. Jonathan Winer can be found on page 119 in the appendix.]

Chairman BACHUS. Thank you.

I certainly appreciate the panel's testimony. I thought you all were very thoughtful and very thorough and I would like to compliment you.

Let me start with the first question. Mr. Weise, you said that the money actually weighs more than the drugs.

Mr. WEISE. That's right.

Chairman BACHUS. Now, we are talking about low estimates of $6- to $8 billion of profits from Mexican drugs originating in Mexico, going into the United States, maybe as much as $30 billion. Of that amount—that's a heck of a lot of money, it weighs an awful lot. It would have to occupy thousands of vehicles.

Now, we have seized one out of every $2,000, one out of every $4,000, one out of every $7,500. I mean, if you take the four million in seizures last year. If I loaded a car, or let's say a truck, full of money, illegal drug profits, and wanted to drive it into Mexico, share with me my chances of getting it back across the Mexican border.

Mr. WEISE. Well, Mr. Chairman, I would say your chances are pretty good. Actually, I would say they are quite good. And I would like to, if I could, put it in a bit of a context in terms of the challenge that the fine men and women that you have acknowledged putting their lives on the line down on that border——

Chairman BACHUS. I understand. I mean, I have visited San Ysidro and you just simply do not have the manpower out there. You have described you don't have the facilities. The facilities haven't even been built. So I am in no way critical of Customs.

Mr. WEISE. And the thing to keep in mind, and obviously you already have acknowledged that the four million you are talking about is actual bulk currency that was seized crossing the border. The number is a little bit higher than that if you take into account the actual investigations that led to seizures of money going to Mexico. The number goes up to about $40 million. It still pales in comparison to the dollars that you are talking about that are actually going to the people that are involved in this drug business. It is not adequate.

We have talked a little bit about the infrastructure needs of Customs. We, basically, facing that border, and it's hard and I am glad to see you have actually visited. There are 38 points—ports of entry—along that 2,000-mile expanse. We have, coming into the country each year, about 232 million people, 84 million cars and about 2.8 million trucks. Customs' principal responsibility to en-

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sure that the goods that are coming in—to ensure that we are protecting the health and safety of the American citizens.

The drug proceeds, if seized, we have already talked about, have a greater impact on the drug organizations, but when you are seizing the currency, the drugs have already done their damage, so I think the American people count on us to do whatever we can to ensure that those drugs are actually not entering the country and doing that damage that result in those proceeds. So we have put a great deal of effort, over the course of the last year-and-a-half in an operation we call Operation Hardline, where our drug seizures are up.

But we have roughly 2,000 inspectors and canine enforcement officers spread over those 38 ports of entry on that expanse. We do operations on outbound. We can't maintain, physically, a presence 24 hours a day so we do it in operations. We do quick blitzes.

The blitz can't last more than a couple of hours because, when we are there, it becomes clear that we're there because the lines start backing up and you even have, particularly even in San Ysidro, radio reporters announcing to the world that there are delays at San Ysidro outbound. People know we're there.

If we were able to have the resources to do 24-hour inspection outbound with the proper facilities and the number of people necessary to do it, once again, remember, there are 38 ports of entry over 2,000 miles.

We could stop bulk currency from traveling through the ports of entry but, suddenly, that vast expanse between the ports of entry which are the principal responsibility of the Border Patrol, unless you had almost locking hands across that expanse, you are going to have a difficult, difficult time stopping this bulk currency from getting into Mexico.

So there are a number of efforts that need to be made, it has to be made in close cooperation with the other Federal and State and local law enforcement on the American side as well as with the Mexican. We need to take, obviously, a more comprehensive approach and we are, I think, working to try to achieve that.

Chairman BACHUS. All right. Mr. Morris.

Mr. MORRIS. May I just add to that point? This is a problem that really demonstrates, I think, a success and I think it shouldn't go unnoticed here.

As was pointed out in your opening remarks and mentioned by other members, the fact of the matter is we have made money laundering in this country a much more difficult problem. The laws that have been passed, particularly in 1992 and 1994 are effective, as is the relationship we have built with our own financial institutions.

If you think for a moment about the vulnerabilities and the risks that exist by having to move bulk currency south and the opportunities that provides for the investigative agencies, DEA and the Customs and IRS and others, because that is a very difficult problem for criminals. Suddenly, they have to move it over distances, and interact with a lot of different kinds of people.

Many of the investigative leads that are developed now on the money side of the business are a result of the problem of moving these large amounts of cash. And I think, while we still need to

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focus on that, that is certainly a much different problem than the Congress and the Justice and Treasury Departments were dealing with 10 years ago when we were worried about the corruption of our own institutions.

Chairman BACHUS. It seems to me we have done a good job nailing the front door closed, but the back door is wide open, and that back door is that border and we have to decide whether we want to keep that door wide open or whether we have the ability to close it.

Ms. Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

Again, I want to focus on the drug trafficking because, again, as was said by Mr. Winer, that's the goal. I mean, without the drugs and without the ability to sell them, there would be no profits, there would be no money, there would be no money to launder.

What I don't understand is how we can have in our computers known drug dealers who sell, are known to sell large amounts of drugs, cocaine in particular, and they are able to use the profits to purchase homes, businesses, what have you, and we can't stop them, we don't know how they launder their money.

Let me just read to you something that causes me to ask you this question: "A known dealer since 1974 has stayed out of U.S. jails. Blandon's boss in the FDN's cocaine operation, Juan Noren Meneses Cantarero, has never spent a day in a U.S. prison, even though the Federal Government has been aware of his cocaine dealings since at least 1974, records show.

"Meneses, who ran the drug ring from his homes in the Bay Area, is listed in the DEA's computers as a major international drug smuggler, was implicated in 46 separate Federal investigations, yet he and his cocaine-dealing relatives lived quite openly in the Bay Area for years buying homes in Pacifica and Burlingame along with bars, restaurants, car lots and factories in San Francisco, Hayward and Oakland.

"'I can even—I even drove my own cars registered in my name,' Meneses said during a recent interview in Nicaragua. Meneses's organization was the target of unsuccessful investigative attempts for many years, Prosecutor O'Neal acknowledged in a 1994 affidavit, but records and interviews revealed that a number of those probes were stymied not by the elusive Meneses but by agencies of the U.S. Government. Agents from four organizations, the DEA, U.S. Customs, the Los Angeles County Sheriff's Department and the California Bureau of Narcotic Enforcement, have complained that investigations were hampered by the CIA or unnamed national security interests."

I guess what I am saying is, if we know who drug dealers are and we've got all this information on them, we should be able to trace their money, we should be able to know how they are laundering their money, we should be able to apprehend them. What happens to the proceeds or the profits of a drug dealer like Mr. Blondon?

Mr. Winer, do you know?

Mr. WINER. Ma'am, as a State Department representative, it is difficult for me to address—in fact, impossible for me to address any particular law enforcement case, which is more properly the

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province of the Department of Justice or Treasury and my colleagues here.

I can say, as a generic matter, quite confidently, I know of no Federal official who condones or accepts drug trafficking by anybody and we're trying to stop these people, we're trying to put them in jail, we're trying to fight their influence abroad.

Ms. WATERS. Have you ever heard of the name Blondon?

Mr. WINER. I have not heard of Mr. Blondon prior to this series. I have read the series, ma'am.

Ms. WATERS. Have you heard the name Meneses?

Mr. WINER. Yes, I—I talked to Mr. Meneses and some of his associates probably 10 years ago in a previous capacity. I was working for a different branch of government.

Ms. WATERS. I see. Do you know where he is now?

Mr. WINER. The last I knew, he was in California.

Ms. WATERS. Did you know him to be a drug dealer?

Mr. WINER. He—I cannot speak to that matter relating to anything in connection to my current position. As I believe the report issued by the Senate indicates, he self-described himself as that at that time. His associates told the Senate he was a drug trafficker.

Ms. WATERS. Does anybody know how he laundered his money and how he continues to launder money?

[No response.]

Has anybody else heard of him?

Mr. MARSHALL. I have heard of him, just in the context of the newspaper articles.

Ms. WATERS. I see. Has anybody seen his name in a computer anywhere as a drug dealer for many years with huge profits in businesses and assets in California?

Mr. MARSHALL. DEA is currently in the process of following up with some inquiries into the articles that have been written. I am not personally familiar with the whole matter except in the context of the articles and we would be in a position, perhaps, down the road a few weeks, to comment in more detail.

Ms. WATERS. Thank you.

Mr. Morris, have you ever heard of him?

Mr. MORRIS. No.

Ms. WATERS. Mr. Weise, you ever heard of him?

Mr. WEISE. No.

Ms. WATERS. Is it possible for—is it possible to trace the activities of known drug dealers and determine how they are spending their money and how they launder their money? And is that done?

Mr. MARSHALL. Well, I could comment on that. Very frequently it is and, in fact, the various U.S. agencies do conduct substantial money laundering and illegal asset type of investigations. We seize substantial illegal assets, illegally derived assets from drug traffickers every year. Obviously, it is such a large business and it is such a covert business that we don't know every single person that is doing every single transaction but we make what I believe is a Herculean effort to track the assets and to seize the assets.

I could, if you would like, I could get some figures on how much illegal drug trafficking funds the U.S. Government has seized over the past several years. I think that would probably interest you.

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With regard to investigating the drug traffickers themselves, you have made a statement earlier that we know who the drug traffickers are and, in many cases, in fact we do know who the drug traffickers are.

Knowing them and building a prosecutable case against them within the framework of our Constitution are often very far apart. It is a long, lengthy process.

Ms. WATERS. Let me just say, Mr. Marshall, that as I listened to Mr. Weise talk about this kind of a puny operation, you know, with officers standing out—and I saw them day before yesterday when I was down San Diego way, stopping cars and pulling a few aside, what have you——

Chairman BACHUS. Were you at the Republican Convention?

Ms. WATERS. Yes, I was at the Republican Convention. Most of them were in the institution that I visited.

[Laughter.]

This operation, as compared to operations where you have known drug dealers where you just literally trace, you know, how they move money and all of these assets, I mean, it is not possible for Mr. Meneses to be in the Bay Area with all of the assets that they have and you not have the sophistication to know how he spent that money and how he laundered that money.

He was on the CIA payroll, by the way. Mr. Winer knows that.

Mr. WINER. Ma'am, I can't address that issue and I have no knowledge, in fact, on that point.

Ms. WATERS. That's OK.

Mr. WINER. I do not know that fact one way or the other.

In 1986, the *San Francisco Examiner* wrote a series of articles regarding this matter, which included references to a then-ongoing Department of Justice investigation and I think that most probably you might want to make inquiries to the parts of the government that may have information from that period.

We are glad to answer any questions asked as best we can but, I suspect, none of us here have detailed knowledge regarding this particular case. My knowledge is, as I said, from a previous job in a previous branch of government and properly belongs to your branch of government rather than the Executive branch.

Ms. WATERS. Well, and obviously I am just, you know, trying to fire off some questions because this problem is so huge. We have so much information that is unveiled time and time again about drug traffickers, we are not able to stop them from laundering their money, from spending their money.

And we hear 10 years later, as we talk about this case, an operation where you've got some sniffing dogs sniffing every one in 2,000 cars or something. It seems quite arcane. When, in fact, it seems to me it would be a lot more beneficial and a lot more profitable to us to be able to trace the known drug dealers who are in our computers. And I am not blaming you or the Administration or anybody. I am just wondering about all of this.

Mr. WEISE. Congresswoman, if I may, I didn't want to leave the impression that, as far as the U.S. Customs Service is concerned, that is our only involvement in dealing with money laundering. We have had many, many successful, and rather sophisticated investigative operations. When we had Operation Costa Rica just several

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years ago that resulted in the seizure and forfeiture of over $60 million dollars, many arrests, where we have actually put people undercover, ostensibly acting as if they are a money launderer themselves, where we follow sophisticated leads, work very closely with DEA, FBI and other law enforcement organizations.

I obviously can't comment, I am not aware of the specific case that you are referring to, but I don't want to leave on the record the impression, that as far as Customs is concerned, our only involvement in this money laundering activity is standing out on the streets outbound trying to stop it.

We have some rather sophisticated techniques working with FinCEN and others and we would be more than happy at a later time to perhaps brief you on some of the activities and maybe some of the specific cases even, in private, that we are engaged in.

Ms. WATERS. Thank you.

Chairman BACHUS. Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

Mr. Winer, in one of the sentences in Mr. Morris' concluding paragraph, he states as follows, and I would like to quote Mr. Morris here: "Our goal is to promote the adoption of effective anti-money laundering standards worldwide by encouraging and, when circumstances warrant, applying international political pressure on governments and financial institutions to cooperate with law enforcement."

Does State Department share and adopt that goal as well?

Mr. WINER. Absolutely.

Mr. BARR. Mr. Morris and Mr. Winer, both of you addressed the CFATF, the Caribbean Financial Action Task Force. Mr. Morris did so in somewhat more detail and somewhat critically, I think legitimately so, given the Mexican government's effort to remove themselves, to some extent, from some of the requirements of that.

I am wondering, Mr. Winer, your addressing CFATF was really just a very general statement. What is, if anything, State Department doing to let the Mexican government know of what I would presume is our government's displeasure at some of their what seem to be dilatory tactics on CFATF? Have we registered any disagreement with them? Have we urged them?

What has, if anything, our government done diplomatically to get them moving on this?

Mr. WINER. Congressman Barr, the situation is somewhat more complex in this particular case than it might otherwise be because there are potentially two different organizations to which Mexico could belong in the money laundering sphere. There is not only the CFATF, which is a Caribbean Financial Action Task Force, principally, and has only marginally become Latinized in the last couple of years as a result, in part, of Costa Rica's decision to take the chairmanship and leadership of the Caribbean Financial Action Task Force.

There is also the main body of the Financial Action Task Force, which arose out of the G7 in, I believe, 1989 or 1990, and then became institutionalized in the OECD in Paris and available essentially to the OECD members. It is the position of the government of Mexico that it ought to be able to join the FATF, which is a global organization, rather than merely belong to a regional organiza-

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tion and they have, at various times, sought or discussed seeking admission to FATF in expansion of membership. They are not the only nation to do so. Russia and Israel are among the other nations that also would like to belong to FATF but which have not yet been permitted to join.

Under the circumstances, the Mexicans make the argument, which has some weight, that their participation in CFATF should not preclude their participation in FATF, and that until their status regarding the other institution is worked out, they are going to constrain in some respects the position on CFATF.

We would like to see all members of CFATF, as well as all members of FATF, participate in self-assessments and mutual assessments. We would not except any country from that notion. We think every country needs to have such assessments.

But that is the diplomatic situation or the foreign policy considerations which are, perhaps, extrinsic to the money laundering issues but which may have an influence on it.

Thank you.

Mr. BARR. As Mr. Morris noted, and I presume he is correct here, he notes also that Mexico and Colombia are the only two CFATF prospective members taking the position that we have discussed here.

Is Colombia making the same arguments as Mexico is?

Mr. WINER. Forgive me, Congressman Barr. I have just been given some additional information which may shed some light and I did not entirely hear your question because it was being given to me as you were speaking, for which I apologize.

Mexico has advised us, within the past week, that they want to join the CFATF as an associate member, which is precisely the same status the United States has, with the same rights and responsibilities that the United States would have as part of CFATF.

Mr. BARR. Does that mean that they would submit to a review of their progress in implementing CFATF recommendations—and I am quoting from Mr. Morris here: "...by a team of experts from other nations."?

Mr. WINER. Let me consult with my expert for a moment.

[Pause.]

My understanding, Congressman Barr, is that associate members are not required to submit to such evaluations. That Mexico has told us that when they become a member of FATF, they will submit to such evaluations and that their position is that, as a full member, they are glad to do that but, as an associate member, they are under no obligation to, as we are not, and that is their position.

Mr. BARR. Does the United States then intend to sponsor Mexico for FATF membership?

Mr. WINER. The U.S. has been trying to deal with the issue of the expansion of FATF. Initially, from a procedural question, which is: Should FATF's existence continue beyond the time that it is due to expire? If it is to continue, what should the membership be and who should be the expanded members?

On this issue, I think I need to defer initially to Mr. Morris who is the chairman of FinCEN and has essentially been administering and managing the FATF process during the U.S. presidency.

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Mr. BARR. Before we do that, and I appreciate that also since I keep quoting Mr. Morris's testimony, and the reason I do that is it is somewhat detailed on this very important point, but doesn't—does it strike you at all as odd, and I am sure that Mexico can come up with all sorts of very nice and convoluted diplomatic reasons here—but does it strike you as odd that the only two countries taking this position are Mexico and Colombia, the two that we have the most problem with on the drug front, raising the issue of submitting to review of their progress in implementing some of these recommendations that really would help get at the money laundering problem?

Mr. WINER. Congressman Barr, you are absolutely right that every country should be willing to submit itself for not only self-assessment, but mutual assessment, according to the standards of the FATF. We strongly believe that. These standards make sense and we need the know where countries are as a beginning of the diagnostic process of solving it.

Mr. BARR. Mr. Morris, if you could kind of weigh in here? You, I think, probably have a lot of background on this matter.

Are we going to hold Mexico's feet to the fire or aren't we?

Mr. MORRIS. I suspect that the interest in this hearing, will continue to make it clear that the U.S. believes that the mutual evaluation process is an important requirement. Indeed there was such a requirement that Mexico and a few other countries managed to strike from the Buenos Aires Communique. That continues to be a matter of concern to the U.S.. The countries should, in fact, put themselves under the focus of experts from other countries to provide an outside assessment of their progress. That's done quietly. It is not done, you know, in the newspapers. Those assessments are held confidential, but we have found it very useful and continue to feel that way.

I think what you are hearing here is indeed a result of discussions at high levels within Mexico that, as I understand from Mr. Winer, and I just also got a note from the State Department here, that their view has in fact modified some, and that their concern which was in my testimony regarding the sovereignty issues, has abated and that they do appear to be willing to undertake a mutual evaluation.

Mexico would like to be a member, in light of the fact that it is now a member of the OECD, of the Financial Action Task Force. The issue in that regard, as Mr. Winer pointed out, quite correctly, is that that organization was created by the G7, and was given a five-year extension on its life through 1999. If it is going to expire in essentially 2½ years, it probably doesn't make sense to be adding new members, but instead to be looking at what kind of international fora need to exist to maintain the legitimate international commitment to combat money laundering.

So it is a situation in which perhaps Mexico could be viewed as playing a game here. I don't think that is correct, because the fact that they have criminalized money laundering and have taken a number of other steps, indicates commitment within the government. But as you know, governments are large and positions adjust over time and I think that is what is going on here.

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Mr. BARR. Mr. Chairman, I know you have been very lenient in time. I do have some other questions. Will we have a second round of questioning for this panel?

Chairman BACHUS. We will let everyone have one followup question.

Mr. WINER. Mr. Chairman, may I make just a quick followup to Mr. Barr's earlier question?

We will be discussing this very issue with the government of Mexico in high-level money laundering talks within the next 10 days in Washington. This will be on the agenda and we will be discussing it and we will be articulating the views that we described today, which are that every country needs——

Mr. BARR. Do we have the assurance that those views will be articulated forcefully and consistently to the government of Mexico?

Mr. WINER. Yes, sir.

Mr. BARR. And that we will not back down?

Mr. WINER. We are not in a position to dictate to any other country positions on domestic laws, regulations, whatever.

Mr. BARR. But at least that we won't back down on our insistence that——

Mr. WINER. Every country should open itself up to examination. Absolutely, that is our position.

Mr. BARR. And we will not back down from that?

Mr. WINER. No, sir.

Mr. BARR. OK, thank you.

Chairman BACHUS. Let me say this, this is very good news that they are at least saying that they are now willing to do these things. I think their good faith will be demonstrated, or it won't, in the next few weeks and I will await those developments. I think it already shows that this hearing today has had some positive effect and so has your work to date.

So, with that, I yield to Mr. Wynn.

Mr. WYNN. Thank you, Mr. Chairman.

Let me say at the outset that I, quite frankly, view our efforts as an exercise in futility with respect to the so-called drug war. That is not an indictment of you gentlemen or other agencies. I think we have worked very hard. I think the dimensions of the problem just far exceed our efforts or our resources and this is illustrated, I think, by the comments made numerous times that this is a 2,000-mile border that we are trying to patrol.

Having said that, I want to ask a couple of questions and I guess I would start with Mr. Morris.

I have been made aware of allegations that there are cash surpluses in Fed branches in the Southwest and also on the West Coast and that this would be evidence of money laundering. Number one, is that correct? And number two, if in fact it is correct that this may be a symptom of money laundering within the U.S., what are you doing about it?

Mr. MORRIS. First of all, it is not evidence of money laundering. It is indicative of what it is, that there are larger amounts of cash coming back from financial institutions to the Federal Reserve Bank in that area than, in fact, the Federal Reserve is providing to the banks in that area.

That can be a result of a number of different factors.

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Mr. WYNN. If I could just interrupt, could one of those factors be money laundering?

Mr. MORRIS. Yes, one of those factors could be money laundering. It could——

Mr. WYNN. Have you initiated an investigation to determine if, in fact, money laundering is the case in these instances?

Mr. MORRIS. Yes. The process that we go through is that the Federal Reserve provides us with the tapes necessary for us to begin an analysis, but it is the very beginning of an analysis. That is to say, there are many other explanations beyond money laundering.

Mr. WYNN. Two quick questions. At what point do you believe you will conclude your analysis to make a determination of whether it was money laundering and if, in fact, it was money laundering domestically, what will you do about it?

Mr. MORRIS. The first answer is that this is a process—this is a process that has been going on for some time. So it is an indicator.

Mr. WYNN. I got that much. My question is, how long do you think it will take you to make a determination of whether it is or is not money laundering in these instances?

Mr. MORRIS. Some of the money——

Mr. WYNN. Six months, a year, a year-and-a-half, 2 years?

Mr. MORRIS. No, I'm sorry, Congressman, it is not so simple to make that—an answer.

Mr. WYNN. OK.

Mr. MORRIS. When you find that you have a $3 billion surplus in the Los Angeles Federal Reserve Bank, the thing that you——

Mr. WYNN. I understand that it was more like $14 billion.

Mr. MORRIS. OK, $14 billion. The first step is to take that information down to the banks to examine all of the other data and then you begin to identify indicators of money laundering——

Mr. WYNN. Mr. Morris, I don't want to be rude but I just want—I know you have to go through your process. I am only trying to find out how long it will take to conclude your process so we will have an answer one way or another. It may well be that it's not money laundering which would be, I think, probably good news. But I just want to know how long will it take you to find out?

Mr. MORRIS. I can tell you right now, Congressman, that some of it is money laundering. The problem is that Fed data by itself is not very useful, however, from a law enforcement standpoint. We need to look at what accounts are basically being used for the laundering, whose accounts are those, what kind of basis do you have to determine what the underlying criminal activity is that is leading to that money laundering so that my colleagues to my left and to my right can make, in fact, undertake, investigations. That is why it is not so easy to answer your question.

I apologize if I sound like a bureaucrat——

Mr. WYNN. Yes, so it may take a year or two to really identify——

Mr. MORRIS. In some cases it will take a day or two. It is an ongoing process.

Hopefully, we will continue to be identifying——

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Mr. WYNN. Would you report back to this subcommittee with the results of the Los Angeles and the San Antonio situations at whatever point you get that information, pro or con?

Mr. MORRIS. Certainly.

Mr. WYNN. Secondly, you mentioned the SAR System. I want to know, is that system, in your opinion, competent to deal with foreign bank drafts? And, if so, what percentage of money laundering involving foreign bank drafts are you picking up with the SAR System?

Mr. MORRIS. Our initial analysis suggests that very little suspicious reporting is coming from financial institutions on the Southwest border as it relates to these Mexican bank drafts. That may, in fact, and does, in fact, suggest to us that the problem may be that the banks are insufficiently aware of this potential for money laundering. So we now have a system in place by which we can provide guidance and information to banks to begin looking at those categories of transactions. That's what we are doing.

So the answer is, yes, we are—I have a draft of that.

Mr. WYNN. You think it works?

Mr. MORRIS. Pardon?

Mr. WYNN. You think it works?

Mr. MORRIS. I believe that that system will work, yes, sir.

Mr. WYNN. OK, you've got 500,000 bank drafts, I believe someone said, coming out of Mexico, if I am not mistaken. That was from Mr. Marshall. What percentage do you believe might involve money laundering?

Mr. MORRIS. I defer to Mr. Marshall on the 500,000. It is a number I had not heard before. I can't answer that question.

I do know that, as we have looked at some areas of transaction activity on the Southwest border, that it is less than 10 percent.

Mr. WYNN. Let me go on. Mr. Winer.

Mr. WINER. Yes, sir.

Mr. WYNN. You basically said that Mexico is proposing new legislation, new regs and new rules, much of which has actually not been implemented. Some of which has been implemented.

The second panel, according to their written testimony, basically said that the system in Mexico is rife with corruption. I guess what I am trying to find out is what is the State Department doing? Somewhat, I guess, in line with Mr. Barr, what is the State Department doing to force prosecutions of these corrupt individuals? Because, if that doesn't occur—in other words, what sanctions is the U.S. contemplating—if that doesn't occur, then all the rules, regulations and new laws, reporting requirements, aren't going to work and I understand that you've got 1,200 agents. I assume these are basically police officers who have been fired.

But in terms of government officials, what is the State Department position on this?

Mr. WINER. Sure. Well, the tools of the diplomat, as sometimes said, are persuasion, carrots and sticks. That's the mix that one has to work with.

Mr. WYNN. Sticks is what I am particularly interested in.

Mr. WINER. I understand that, sir. What you hope to do in the first instance is to find areas which both countries in any bilateral

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dialogue seriously and sincerely believe need to be worked on together mutually, because it is in the interests of both countries.

The Zedillo government has expressed very clearly its belief that dealing with the corruption problem is essential for dealing with judicial institutions, its law enforcement institutions, is an essential component of reform.

We are working with them in providing guidance, training, assistance——

Mr. WYNN. Are there any sticks that you are prepared to disclose at this hearing?

Mr. WINER. The stick that the Congress has provided the Administration with in counternarcotics on an annual basis is the International Narcotics Control Certification process which each year the President has to make judgments as to who has fully cooperated with the U.S. and who has not, and that process is legislatively mandated and is governed by the law.

Mr. WYNN. Is your recommendation that Mexico is fully cooperating at this point?

Mr. WINER. At this point, we have no recommendation one way or another. We don't make those recommendations at this time.

Mr. WYNN. A final question because, as Mr. Barr said, all of us have to have questions that we want to ask: Is there any discussion within the Administration of utilizing an approach based on eradication, to go to the source of the drug problem?

I understand that there are herbicides, safe herbicides available now with which we could go into Colombia and eradicate substantial portions of the drugs, I guess.

Mr. WINER. Crop eradication is an important component of our counternarcotics strategy in the Andean countries. It is something we work very hard to do. We want to do it not just with cocoa, but of the opium that is now growing in that region. And it is a critically important element in what we do and every year we describe exactly what steps have been taken, how much has and hasn't been eradicated and——

Mr. WYNN. How much has and hasn't been eradicated?

Mr. WINER. In which country?

Mr. WYNN. Colombia.

Mr. WINER. Can we get you—provide you the information after the hearing for all the Andean countries as to what eradication efforts have taken place so far in 1996?

Mr. WYNN. That would be fine, thank you.

Thank you, Mr. Chairman.

Chairman BACHUS. Thank you.

I will ask these questions of Customs.

First of all, there has been reference made to the column in the *Washington Post* this morning. That article reported that only two of the 215 Customs inspectors in El Paso "are detailed exclusively to inspecting outbound traffic."

Furthermore, the article quotes a Customs inspector stating only ".00-something of outbound cars are inspected on the southbound border." And I think your testimony has been somewhat consistent with that.

Are those statements true?

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Mr. WEISE. Yes, the point that I have to emphasize is exclusively on the Southwest border we don't have the luxury of people who do only outbound. What we have are what we call "contraband enforcement teams" who work many hours during the day doing inbound and then they will go over and for a couple of hours do outbound.

So the answer is, absolutely, we do not have many who are exclusively doing outbound. As I explained before——

Chairman BACHUS. How about the statement that only .00-something of outbound cars are inspected?

Mr. WEISE. Mr. Chairman, I wouldn't be able to calculate but I wouldn't find that would be probably far off. And I have indicated before, we do a full-time inbound and we do a spot outbound so the percentage obviously is not very high.

Chairman BACHUS. So that statement is probably true?

Mr. WEISE. I would think so.

Chairman BACHUS. In a September 10, 1994, *San Antonio Express News* story, then Secretary Bentsen stated that, "I obviously can't go into details but we are looking into 12 cases of money laundering at the present time in a cooperative effort with the Mexicans."

Does anyone know the status of those cases?

Mr. MORRIS. Yes, Mr. Chairman. There are cases that were provided to the Department of the Treasury from Hacienda when the Secretary signed with Secretary Aspe a financial information exchange agreement. One has ended subsequently in an arrest and conviction in the United States.

Chairman BACHUS. All right. How about the other 11? Have they resulted in any——

Mr. MORRIS. You know, the process for investigations of financial crimes is long and tedious in this country and in Mexico as well. I would rather try to provide that for the record, if I might.

Chairman BACHUS. Great. I appreciate that.

Finally, and I will direct this at the State Department, in light of the recent developments surrounding the Salinas/Citibank money laundering case, it would appear that our initial impression of the Salinas Administration as one of reform was misguided. Is the State Department sure we are not being fooled again?

Mr. WINER. I think that you have asked a good question. The State Department deals with every government in terms of the actions that it takes as well as the statements it makes and every government will be judged by its actions.

What we have seen this year has been quite promising in the areas that I have outlined. The large firings of corrupt officials, the passage of money laundering legislation as I indicated in my testimony, that legislation has to be followed up by regulation and by enforcement. We have to see cases at the end of it, we have to see referrals in terms of suspicious reports and we have to see the system work and that is going to be the test in the months to come.

Chairman BACHUS. I think you will agree with, what is it—"Fool me once, it's your fault; fool me twice, it's my fault."

Mr. WINER. Mr. Chairman, I think that adage has some weight.

Chairman BACHUS. Thank you.

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Mr. Winer, in your opening, you noted the extent of the corruption problem that is currently plaguing the Mexican government and, of course, my last question dealt with that also. Who is to say that in providing the Mexican government with United States anti-money laundering training and technology it won't be used by corrupt individuals in Mexico to simply streamline their criminal operation?

Mr. WINER. It is a very good question and I would best answer it in the following way:

What you try to do with money laundering systems is to create systems of supervision, enforcement, regulation, oversight, which function as systems which create systems for recordkeeping, systems for referral of information which over time thicken into practices which allow careers to be built off using the information.

All of the people at this table are good examples of people who have made careers in law enforcement built upon the fact they've got tools to use and can have results. People in government like to be successful in what they do. Trading government for a bribe is going over to the other side. It is a risky activity.

If you increase the risks on the one side, which the Mexicans are now doing, and if you increase the rewards on the other, that is the rewards for being in government doing your job, increasing your capabilities, building your relationships with people from other countries, creating career tracks, you begin to create systems that work and people committed to carrying out those systems.

We have found very few countries in which we are unwilling to work to help strengthen money laundering systems because of fears that we would be teaching the bad guys new tricks. There are a couple of countries where we will not work, where we are very leery about working and have not worked so far, precisely because of that concern. Mexico is not one of them.

Chairman BACHUS. What type of monitoring will the State Department be doing to prevent what we've talked about?

Mr. WINER. We do various kinds of vetting processes before we do training programs. Sometimes they are more complete, sometimes less complete. What we are trying to do now is to make sure that future U.S. training programs and across-the-border law enforcement in Mexico are of a career service. Because past training efforts have sometimes dissipated because of the fact that people who are trained are off doing something else 6 months or a year later and there has been something of a revolving door on the Mexican side in law enforcement terms. It has not been a civil service career for a lot of people in the way that is necessary. Civil Service reforms to create a career service are now part of the reforms that the Zedillo Administration is talking about, that is, the professionalization and career tracking of law enforcement officials.

On the money laundering side, an important component of what you are doing is simply creating systems which are somewhat self-regulating, which create records which if you then have some intelligence, you go back and you look at the records in the same way we look at our cash and monetary instrument reports and say, "Ah-hah, this person did move X amount of money on that site on that day. Let's go interview that person and find out what the source

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of that money is, let's see what the explanation is." Then we will trace the explanation, see if that turns out to be true.

So, by creating systems with reports, you create an evidentiary trail which then allows you to follow up intelligence to a successful investigative conclusion. That doesn't eliminate the corruption problem but it does attenuate it because it makes it more difficult to evade the system.

Chairman BACHUS. Thank you. Mr. Barr—no, I'm sorry, Ms. Waters. We're starting over, aren't we.

Ms. WATERS. Well, I am not going to use this time to ask any questions except to say that I see that the Republicans have put together a piece that showed up on the press table that says, "Democrats Speak Out on President Clinton's Failed Drug Policies" and it quotes FBI Director Louis Freeh, Representative Charles Rangle and Representative Maxine Waters and, again, I guess political games are being played in connection with these hearings.

While the rhetoric has been, Mr. Chairman, from your side of the aisle that this should be a bipartisan effort to do everything that we can to protect our children, I see that it appears that this subcommittee is simply being used in a political way to attack President Clinton.

Since that is the case, let me make this statement: Presidential Candidate Dole is playing games with this issue. There is no record of his leadership while he served as the powerful leader of the Senate. He has no credibility on this issue. He is simply a desperate Presidential candidate in search of an issue.

Don't play games with me; I won't play games with you.

Chairman BACHUS. May I see that?

Let me make these assurances to you, Ms. Waters. I have checked with the subcommittee staff and they did not prepare this. I will check with the staff of the Full Committee, but this was not something that was done at my direction, nor that I had any knowledge of, and I will certainly express to them that I do not believe in distributing things of this nature. We are in a bipartisan, non-partisan examination of an important issue and, as I said in my opening statement, I don't want to politicize this. I have not seen this before, I didn't approve of it and it is just sort of a political thing.

Ms. WATERS. Yes, it's political and it was done. I don't like it, I don't appreciate it, particularly when I am sitting here in the most honest way that I possibly can to deal with an issue that is crippling our country, and everybody here that has come to this table talked about their children.

So I don't appreciate those games being played with me as I sit here trying to do my work.

Chairman BACHUS. I hope you will accept my explanation that I——

Ms. WATERS. I accept your explanation but I want the lowlife who put it on the table to reveal him or herself.

Chairman BACHUS. You know, I have been told that it was not my subcommittee staff and I will express my—I will follow that up and I will express to them that I wish they would keep that out of these hearings.

Thank you.

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Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

Chairman BACHUS. But I do want to make the record clear. I am not going to stand up here and say this needs to be non-partisan and bipartisan and then direct my staff to pass out those kind of documents and if I had knowledge of it, I would have asked them not to have done it.

Mr. BARR. According to a GAO report, June 1996 entitled "Drug Control/Counter Narcotics Efforts in Mexico," on page 17 it says, quote, "The U.S. Embassy in Mexico City elevated counter-narcotics from the fourth highest priority to a top priority."

Mr. Winer, what is the priority? Is it a top priority? Do we have a lot of top priorities? I mean that is kind of a vague statement and I know it's not yours, but exactly where does counter-narcotics rank in terms of the U.S. Embassy's, the State Department's dealings with Mexico?

Mr. WINER. It is among the constellation of top priorities. You cannot pull out any one issue and look at it apart from other issues in a relationship. You should not submarine or reduce the impact or value or importance of an issue like this ever. It has got to be part of the dialogue that you are having forcefully with all other countries, because we have no other problem that so threatens not only our institutions, but institutions in almost every other country, so it is a number one priority. It is not the only number one priority.

Mr. BARR. I mean either it is the number one priority or it isn't and I don't think it is just semantics. I mean you can't say this is the number one priority, this is the number one priority, this is the number one priority. I mean I understand what you are saying, but is it our top priority in dealing with Mexico, our A-Number One primo priority?

Mr. WINER. It is the A-Number One primo priority of the Bureau for which I work at the Department of State. There are other issues which other parts of the Department of State work in the relationship.

We do our very best to make sure that every counter-narcotics issue that is relevant to protecting our citizens from the pernicious impact of drugs on their communities is worked as aggressively as we possibly can, and that is part of our daily dialogue with the government of Mexico, you bet.

I can't rank it precisely beyond saying it is a number one top priority.

Mr. BARR. Do you have the access that you need to make sure that that point of view is presented forcefully and regularly to the Secretary of State?

Mr. WINER. Yes, sir.

Mr. BARR. Also Mr. Winer, in some other materials that I have here regarding the case of Ricardo Cordero Ontiveros, a Mexican drug enforcement agent who apparently a couple of months ago went to the Mexican and American press with allegations about Mexican anti-drug efforts being a sham to extensive corruption. He was subsequently arrested by Mexican authorities under some pretext but it seems obvious that he was arrested for making those statements.

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Has the United States protested that to Mexico in some way, made known our displeasure with arresting drug agents—I know he's not an American drug agent—but arresting a drug agent for simply speaking out on the drug problem in Mexico?

Mr. WINER. Congressman Barr, I am very well aware of the allegations and of his arrest following the publication of those allegations in a U.S. newspaper. What I would like to do is pause for a moment and see if I can get you a fair assessment of what we have—the position that we have taken, if you will give me just a moment.

Mr. BARR. OK.

Mr. WINER. Thank you.

Mr. BARR. While he is doing that, Mr. Morris, if we could come back to something that is very, very important to our efforts to get at money laundering here, and that is the regulations regarding foreign bank drafts that we discussed earlier, could you just recount exactly where we stand with regard to those regulations, exactly when we can expect them, and if you could just give us the general parameters that will be reflected in those regulations.

Mr. MORRIS. Well, as you know, Congressman, there is a requirement that all cash and certain other instruments that are negotiable be reported as they transit our borders or in and out of our banks.

When the Congress gave us the authority to include, because it was not included in the original law, a provision to deal with Mexican bank drafts, as we began to look at it, the definition problems became very difficult.

As you know, we can't simply say "Mexican bank drafts"—we have to try to define very carefully foreign bank drafts of a certain order and a certain nature. That became very, very difficult.

As we began to look at that we did draft a rule. It is under review in the Department of the Treasury and we fully expect within the next weeks to put such a rule out for comment. We will clearly need guidance from financial institutions and the like to make sure we are crafting a reporting requirement very narrowly.

As we began to look at this with our colleagues at Justice and Treasury, it was also clear that perhaps the rule was not the only approach to dealing with the problem. Indeed perhaps there was a wiser approach—which was to alert U.S. banks that this is a money laundering technique and that in certain circumstances they should report those transactions as suspicious.

We have not provided that advisory at present, but that might be a more effective way to deal with this money laundering practice by basically having the banks identify suspicious activity.

Mr. BARR. That could be done fairly quickly, couldn't it?

Mr. MORRIS. Yes.

Mr. BARR. I mean, is there any reason not to do that fairly quickly?

Mr. MORRIS. Well, there is no reason not to do that. I will tell you and the chairman that I speeded up our processes—the value of Congressional hearings and oversight. We would not have been able to establish an advisory of this 3 months ago, because the new reporting system, the suspicious reporting system, did not exist until then. But yes, it can be done.

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We think that it makes sense to do. Then we will at the same time explore, through a rulemaking process, the reporting aspects for foreign bank drafts.

Mr. BARR. Are you in a position to tell us that we can expect to see both of those things within the next month?

Mr. MORRIS. I would think so.

Mr. BARR. OK. If you run into any problems, would you notify the subcommittee, please?

Mr. MORRIS. Certainly.

Mr. BARR. Thank you. Mr. Winer.

Mr. WINER. Thank you, Congressman Barr.

We are awaiting the results of a Mexican investigation into the entire matter relating to this former Mexican official.

I have some additional information regarding that matter which I would be delighted to provide the subcommittee either in closed session or to you on an informal or confidential basis. It is not the kind of material which I can put out in open session.

Mr. BARR. OK. Would your staff then contact Mr. Herriot—I would appreciate just a briefing on that.

Mr. WINER. Yes, sir. We would be glad to provide a briefing.

Mr. BARR. OK, thank you.

Thank you, and again, Mr. Chairman, I think these have been very, very productive hearings. I have learned a great deal and I think we have nailed down some things that are very positive, other problems that we can work on, but I appreciate the hearings and appreciate very much the cooperative and constructive spirit that these witnesses have brought to this problem.

Chairman BACHUS. Thank you. I am going to close just by making a statement, Mr. Winer. Mr. Barr pointed out Mr. Cordero's arrest. As you know, he published some very serious allegations of corruption within Mexican law enforcement and those were published in the Mexican papers July 5th.

Six days later the government had their initial interview with him concerning investigating him and some time after that on July the 30th, just to set the record straight, on July the 30th his interview was published in the *Washington Post*.

At that time our committee was in touch with Mr. Cordero about testifying before this subcommittee and the next day he was formally asked to testify before this subcommittee.

It was the next night after that, after his invitation to testify before this subcommittee he was arrested, and I can tell you that the chronology there certainly is upsetting to this subcommittee, without getting into the merits of the charges.

Mr. WINER. Mr. Chairman, as a former Congressional investigator who dealt many times with the difficulties of bringing witnesses in which I was interested to public—the opportunity to present their information to the public—I am acutely sensitive to the importance and sensitivity of the issues you have raised.

Every witness should have the right if Congress wants them to be able to testify as a general matter. It's a very important part of the fact-finding process.

Regarding the facts on this case, I think it would be very valuable for the subcommittee to talk through with the Department of State the underlying information we have and to see if it is pos-

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sible to have an exchange of views which will contribute at least to a better understanding of where we are.

Chairman BACHUS. Right. You can certainly understand how our suspicions would be raised though by that chronology.

Mr. WINER. Were I in your position, Mr. Chairman, I would have serious concerns, but I think it is very important to get all the facts available to the subcommittee.

Chairman BACHUS. Thank you—and I am not sure we can do that without having him testify before us. I am not sure about any reliability without hearing his side of the story.

Mr. WINER. We appreciate the position of the subcommittee and of the chairman in this matter. I think that all we can do is provide such information as we have and see where we go from there.

Chairman BACHUS. Right.

Mr. WINER. But clearly all the facts that are public are—the facts which are public are not all the facts.

Chairman BACHUS. I have no doubt that that's true.

One more question by Mr. Barr and then we will conclude the first panel.

Mr. BARR. Thank you, Mr. Chairman.

One area that I think came up tangentially early on, and that is intelligence information, of CIA and other intelligence agencies. Is it your impression, each one of you, that the appropriate amount of intelligence is being gathered internationally, through the CIA in particular, and militarily of secondary importance, and is it being shared and made available on a fully cooperative basis with your agencies and do you see any problems that we need to be aware of with regard to the gathering or the sharing of that intelligence information?

Mr. WINER. From the point of view of the Department of State, Congressman Barr, we are always interested in having more intelligence on everything and this is an area that has been a priority for us in seeking to gather information. It is an area that we look for information and which we get information and we think the information is well disseminated.

Could there by more? Sure. Is it an area to which we are paying attention and to which the intelligence community is paying attention? Absolutely.

Mr. MARSHALL. I would agree that you always want more intelligence information. You always want it to be better but we have a very effective working relationship with the CIA.

Mr. MORRIS. Same.

Mr. WEISE. That's very much the same. I think that we have seen improvements in recent times as well. The big challenge is to getting the information into a tactical mode and getting it as far as U.S. Customs is concerned in a form where we can get it to the people out there on the front lines in a timely fashion and that is one of the things we are working very closely to try to achieve.

Mr. BARR. OK, thank you. Thank you, Mr. Chairman.

Chairman BACHUS. Thank you. This concludes the testimony of the first panel. They are discharged, and again I want to thank you for your workman-like job before the subcommittee—so you are now discharged.

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We will recess until 1:15, approximately 23 minutes, and then we will reconvene with the opening statements from the second panel.

[Recess.]

Chairman BACHUS. We'll now reconvene this subcommittee hearing and I want to welcome you three gentlemen.

The second panel will outline the extent of the drug and money laundering problem on the Southwest border and current U.S. enforcement efforts.

On this panel will be Christopher Whalen, an expert on Mexican politics and banking; former Senate investigator Jack Blum, a respected expert on money laundering, and I think Ms. Waters made a reference earlier to one of your investigations; and James Dutton, the California Supervisory Deputy Attorney General and an expert on crime, money laundering, and drug smuggling on the Southwest border.

I want to welcome you, Mr. Dutton. I understand you had quite a lot of travel.

Mr. DUTTON. Sure did. I think I have seen about every airport in the United States trying to get here from San Diego today or last night as well.

Chairman BACHUS. How did that go?

Mr. DUTTON. Well, I started out missing—well, they were late on a flight for connection for San Diego-L.A., so then they routed me to Chicago, and then we had fog delays in Chicago, so I landed in Milwaukee and we flew back into Chicago, and then the flight from Chicago here to National was delayed because the stewardesses were delayed on another flight, so things were not going well.

Chairman BACHUS. And as it worked out, you got here on time.

Mr. DUTTON. Yes, it was great.

Chairman BACHUS. All right. We want to welcome you all and at this time if you all want to decide on an order, or if not we'll just start left to right.

Chris, I saw you on CNBC, when was it?

Mr. WHALEN. Was that yesterday, Mr. Chairman?

Chairman BACHUS. Just a few days ago.

Mr. WHALEN. That's right.

Chairman BACHUS. My stocks were going down, so I turned it off.

STATEMENT OF JAMES DUTTON, ESQ., DEPUTY ATTORNEY GENERAL, STATE OF CALIFORNIA

Mr. DUTTON. Good afternoon, Mr. Chairman. As you are aware, I am the Deputy Attorney General, head of the California's money laundering program.

I think we are all aware of the seriousness of the problem, especially in California. California, especially Southern California, is the drug and money laundering center for the United States.

I am not going to quote a lot of figures, a lot of it is in my reports, but there were some questions earlier on the first panel as far as the Federal Reserve surplus in the Los Angeles Reserve branch and in 1995 it's up to $13.5 billion of cash surplus. That's up approximately $5.5 billion over 1994. Nobody can sit here and say that that is all attributed to drug proceeds. Law enforcement certainly thinks there is a correlation.

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There are interesting things to note. When Miami was the center for the drug trafficking and money laundering they had the largest surplus. I mean that was 5 or 6 years back. When it started shifting toward Southern California, all of a sudden L.A. Federal Reserve Branch sees these unprecedented increases in cash surpluses, so I think to say we don't really know exactly if narcotics trafficking is a factor is not true. I think it has got to have some sort of correlation.

California—what we have been facing in the last 2 or 3 years as far as trends, one, it's becoming more and more the collection center for money from all over the U.S.. It is coming—so it is going east to west, by airplane, by car, trucks, whatever it might be. Drug proceeds are coming down from the north, Washington and Oregon, even from Canada.

What we are also seeing is more and more currency smuggling by vehicles from Southern California collection centers into Mexico. Three or 4 years ago there was so much cash and currency in California that the Colombian cartels and some of the Mexican families were recruiting people just to pick up the cash and get the cash into financial institutions. Nobody bothers to do that anymore. They just put it in the vehicles and head south.

I live about eight miles from the border, the San Diego-Tijuana border, and I have gone down there many a time and I just—I as well as everybody else—we just stream straight across the border. I have never seen any sort of periodic checks. However, I know that they do them occasionally.

I think part of it is just the practical reality when you have thousands of vehicles literally going across these busy ports of entry, are you going to stop private vehicles as well as the commercial vehicles? To be effective you have to stop almost everybody and do some sort of a check and that is just not realistic. It is a real problem.

The other thing that is of real concern for California law enforcement is the increase in the manufacture of methamphetamine. It is now being controlled by the Mexican families. They are taking over from the Hell's Angels and the other biker groups in California. They are making it cheaper. They are making it in larger quantities and they are now not just distributing it in California. It is going to the Midwest. It is going to the rest of the Southwest and it is going even to parts of the Southeast, and that means more money is coming back in through California and then heading South across the border.

The other thing of note is that Mexican organized crime families are taking over the whole distribution of the drugs coming up through Mexico—whether it is Colombian cocaine, whether it is Mexican heroin, whether it is Mexican marijuana. They are now taking over the collection of the revenues. They collect the revenues and then a portion of those revenues go back to Colombian cartels, because they are the original source country, of course, for the cocaine.

Just to give you some examples of what we are facing in some of the smaller counties. I used to be a Deputy District Attorney in Kern County. That is where Bakersfield is. Frank Gifford and a

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few other people—Earl Warren—came from there. It's also been the butt of a lot of Johnny Carson's jokes on late night TV.

It is a county of about 400,000 people. Law Enforcement—CHP—has an interdiction program that basically focuses on the drugs going up and down our main interstate, which is I–5. Ninety-seven percent of the drugs that are being seized are going north; 97 percent of the currency that is being seized is going south—and we are not talking about a lot of sophisticated seizure techniques.

The CHP is doing regular traffic stops on people who are speeding, their blinker is out, whatever it might be, and they are coming across various people who have pagers, cell phones, or are acting very nervous. CHP normally asks for a consent search. At that point the drivers often do consent to a search of their cars and currency is found in secret compartments, drugs are found in secret compartments.

Most of these couriers are Mexican Nationals. At least in the Kern County area they are saying that most of them show documents that they are born in Michocan, Mexico. That is an area where a lot of marijuana is grown. The drugs have a street value, those seized over the last 4 years, of over $1 billion.

The cash couriers in the vehicles transport anywhere from $10,000 to $200,000 a trip. Cash stash houses in Southern California, they like to keep it down to relatively small amounts—by that I mean $500,000—because we are dealing with millions of dollars here. There is just so much money flowing south-bound, we have just not been able to stop it.

As far as some changes, a couple of years back it was casas de cambios which were major players in regards to facilitating money laundering on both sides of the border. They still are players, but now more and more we are seeing the cash being smuggled into Mexico and going to brokerage houses. The brokeraage houses can handle—surveillance has seen 5 or 6 carloads of currency in 1 day going to a particular brokerage house, from a million to two-three million dollars in 1 day. The brokerage houses collect the drug money and then they deposit it. The brokerage houses insulate the drug dealers when they deposit it into more traditional Mexican financial institutions. They are giving this cash even more of an aura of respectability by going through the brokerage houses, and we have seen more and more of that over the last couple of years.

Once the money gets into the financial institutions, as you have already heard from the other people who have testified on the first panel, it can be wire transferred anywhere in the world and then can come back to the United States. Also, you can have what has been referred to here as "Mexican bank drafts."

Mexican bank drafts are just like our personal checking account. Instead of you or I having a personal checking account with Bank of America, it's the Mexican bank that has a checking account with a domestic U.S. bank, and instead of just having you sign it as a signator—or myself—sign as the signator of the checking account, they can have up to 100–150 bank official signators on it from different banks throughout Mexico. It is easy access. These Mexican banks don't just have one correspondent U.S. domestic account. They can have several in various States. There are lots of options as to where this money can go.

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In 1994 I set forth in my paper that $29 million in Mexican bank drafts were seized in Colombia by Colombian law enforcement. This just represented 2 months of trafficking by one particular cartel and these all were on correspondent accounts in San Diego and the Los Angeles area.

Some of these schemes are very sophisticated. The problem for the Colombian cartels is: How do we change American narco-dollars that come across the border at Tijuana into Colombian pesos in Bogota? Colombia has very strict currency rules and they basically have to deal with pesos in Colombia for domestic consumption.

To give you an idea of one particular sophisticated scheme or scenario, you have your casas de cambios, or money-brokers, in Colombia, and they act as middlemen between otherwise legitimate businessmen. Legitimate businessmen from Colombia go to a third country and they enter into some sort of business transaction and get a business debt. They are buying from some third country a product. They have to pay the third country wholesaler money for the product.

Well, the money-brokers back in Colombia do the following arrangement. They know that narco-currency is flowing in Tijuana. They say, "OK, next currency shipment of $2 million, you write out a Mexican bank draft made payable to the order of the businessman in the third country to pay off the debt." This creditor in the third country gets U.S. dollars on the Mexican bank draft.

What happens in Colombia is that the Colombian businessman who owes the debt, he pays the money-broker in Colombia the pesos and then those pesos go directly to the drug dealer—very difficult to detect this type of situation.

You can have a Mexican bank draft within four days of the business transaction actually being in the hands of that third country wholesaler.

The NAFTA has had an impact. Trucking companies on both sides of the border certainly have cropped up and increased dramatically. That just gives more of an opportunity to facilitate drugs going north and currency coming back down south.

As of December of 1995, changes were made regarding the Mexican trucking companies—it changed from them only being able to go within about a 30-mile radius of the border in the Southwest border States, to throughout the Southwest border States. Now the Mexican trucking companies can go throughout California, Arizona, New Mexico and Texas. As of the year 2001 they can go throughout the United States and Canada. This is just going to cause more and more problems for law enforcement.

Maquiladores are small businesses or factories in electronics or retailers that are located along the border of Mexico with the United States. They add usually a manufacturing component to various materials—that can be electronics—to take advantage of lower import/export duties on these type of products. The finished product then goes up to the United States.

There is evidence that a lot of the maquiladores, or at least some of them, are being controlled by Mexican organized families, or at least have ownership interests. Also, that some of the owners of these maquiladores have companies that they deal with on the U.S.

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side of the border. They have hidden ownership there as well. That is another growing problem. That's all connected with NAFTA.

In regard to Mexico's response to money laundering, the chairman is well aware that they have passed in May new money laundering legislation. Prior to that they had a money laundering statute—but it was a "fiscal" statute—it was basically a tax money laundering statute and could only be prosecuted by one part of the Mexican government.

As to the new statute, it is my understanding that even though the Mexican Congress has passed it, it still has to be ratified by the States. It is also my understanding that this process hasn't been completed, so the statute has not been implemented officially. In any event, you could have as many statutes on the books as you want, and it may look good on paper, but you have to enforce them.

I know, being head of the money laundering program in California and head of a prosecution unit that was funded by Federal money for 2 or 3 years in the San Diego area as well as prosecuting money laundering cases in Federal court and State court, that it takes a lot of expertise, resources, to do these type of cases and a real commitment. Mexican law enforcement, no matter how well-intentioned they are, are going to take a number of years to build up the expertise and have the resources to be able to effectively handle these cases.

Even right now, there are very few people on the State and local side of law enforcement that have the expertise to do our own money laundering cases. To do money laundering cases effectively, whether you are in Mexico or whether you are in California, you have got to have a statutory scheme as far as financial investigation tools to help you do the cases.

You have got to have sufficient subpoena power. You have to have things like the Organized Crime Bill that Mexico is considering—wiretapping abilities, witness protection and things of that nature. You need to be able to do these cases on a nuts and bolts basis, and I don't see that Mexico is there yet.

That Organized Crime Bill has not passed yet and I know that they are considering it in this next session.

They do, in fact, have a Currency and Monetary Instruments Reporting statute where they have to report currency of $5,000 and anything else of a value of $10,000 which comes into their country. As to currency transaction reports and suspicious transaction reports, there are voluntary guidelines set out by Hacienda, which is their Department of Treasury. It is not compulsory, and my understanding is they hope to get these implemented by 1997. If they can, that would be great. One of the problems is that you need computers and all the software to implement these types of reporting laws.

To be perfectly honest, as far as the way law enforcement, at least along the border, views Mexico and how effective they are in helping with the problem in these financial cases of money laundering, it's kind of viewed as a "black hole"—that if the money gets into Mexico, it's very difficult for law enforcement to trace it and to do anything about it. There is also quite a feeling of distrust as far as confidentiality that U.S. law enforcement has towards their counterparts in Mexico.

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All these things have got to be improved if we are going to effectively control the money laundering problem on both sides of the border.

That finishes my presentation. If there are any questions, I would be happy to answer them.

[The prepared statement of Mr. James Dutton can be found on page 126 in the appendix.]

Chairman BACHUS. Thank you.

Mr. Blum, I think I will run and vote. Is that OK?

Mr. BLUM. No problem.

Chairman BACHUS. Then we will come back and we'll get the next two. I apologize—and if Mr. Barr comes back before I do, we'll just proceed because I have already read—well, actually I read Chris's testimony and I think yours, too—whichever got here first.

[Recess.]

Chairman BACHUS. We will reconvene the hearing at this time and we'll hear from Jack Blum. Jack, go ahead and maybe tell the audience your background. I think it is very interesting.

STATEMENT OF JACK BLUM, ESQ., LOBEL, NOVINS & LAMONT

Mr. BLUM. I am a former Special Counsel to the Senate Foreign Relations Committee and indeed I worked on the investigation that Ms. Waters referred to earlier about narcotics trafficking in Central America.

I am currently a partner in the Washington, DC. law firm of Lobel, Novins & Lamont, and I have been working on money laundering, drug trafficking, offshore tax issues and international organized crime for the last 10 years.

About a year ago USIA sent me around Mexico to talk about money laundering, to talk to bankers, speak, and to try to encourage people to pass money laundering legislation. In the course of that I got to learn a tremendous amount about the nature of the problem in Mexico and the difficulties we are having in dealing with it.

I would ask that my prepared statement be made part of the record. I will just try to summarize it and give you the sense I have.

I think Mr. Barr in his questions put the issue "What is the priority?" and when you look at Mexico you almost can't figure out where to begin.

Let me start with the economic situation. We have had 48 percent devaluation and 50 percent inflation. When I was down there, interest rates for businessmen, home mortgages, car loans were running 103 percent.

The bankers told me that they had foreclosed on everything. They now own the houses. They own the cars. I said "What are you doing with them?" "Well, we allow people to stay in them as caretakers." "Well, why don't you sell them?" "If we sold them the market value would go to zero and our banks wouldn't have any assets—so Mexico City has said we can't sell anything."

"Well, how do you keep your doors open?" "We live on our cash flow—and of course you are talking about money laundering and that makes us all nervous."

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So if you can't solve the economic problem and solve the banking problem, suddenly there is a large constituency that needs drug money to survive. They really don't want to talk about how to shut off the flow of that money because they understand that their own institutions might go down the drain.

The drug money is distorting commerce along the border, not only along the border, but all over Mexico. Small businessmen, and I talked to any number of them, who are legitimate, trying to make a living doing whatever they do, suddenly confront competitors who have all kinds of cash—cash to buy new equipment, cash to expand—in the teeth of a terrible economic downturn. The minute they see that, they say, whoops, my competitor's got drug money, I better get out of here.

That is terribly distorting, terribly dangerous.

Then you say, "Well, maybe we can solve this problem by controlling the border." The more you go along that border, and I know you have seen the border, Mr. Chairman, and others on the subcommittee have gone down there, the more you understand that is not a border subject to control.

Twice in American history we have had angry police and law enforcement people say, "By God, I am going to shut it down and I'm going to show those Mexicans if they don't do it."

The first was Attorney General Kleindienst. He lasted 17 days. That was in the 1960's and marijuana was the problem. Out of that we got an agreement from the Mexicans to eradicate marijuana. We sent them helicopters. The Mexican marijuana growers then bribed the people who ran the helicopter spraying operation to substitute fertilizer and pesticide for the herbicide and it took us about 10 years to realize that instead of the marijuana crop shrinking, it was actually increasing.

The second time we shut the border down was after the Camerena murder. At that time Willie von Raab decided he was going to ignore the State Department and the foreign policy people and do what the police world really wanted done, which was "show the Mexicans."

He lasted 7 days, so we went from 17 to 7 and that was before NAFTA and before the current volume of trade.

Today it is utterly and completely impossible to close that border and even these Customs flying raids do not work. You have to be down there to realize suddenly traffic goes from a 45-minute backup at the border to a two-hour backup, and we are talking about cities that are so joined economically that just to have the border is a huge cost. To throw huge inspection on top of it is utterly impractical.

On the best day, the Customs people might look at 2 percent of what crosses the border. With all the work in the world, they might get 8 percent of what is crossing if it is illegal. When a Customs official comes into this room and tells you, "Mr. Chairman, we're doing great with the same number of people on the border—we seized twice the amount of money"—the message to you is twice the amount that was being smuggled last year is being smuggled this year. It is not a sign of success. It is a sign of failure.

Going beyond the question of the border, we have to look at the issue of corruption right up to the top of the Mexican government.

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Realize we have the brother of the ex-President of Mexico currently imprisoned, trying to explain $120 million that accrued to him in ways which we can, I think, guess at without too much difficulty. That money was hidden for him by an American bank operating in Mexico and the machinery that was used is the machinery that is used by most wealthy Mexicans to evade taxes.

Virtually every large bank in Mexico has offshore facilities. Virtually every wealthy Mexican uses those offshore facilities to set up corporations and bank accounts that are beyond the reach of his own government.

When you have that kind of environment, how is anyone going to try to control what goes on in a particular State by a drug trafficker? How do you separate that from the wealthy businessman who is evading taxes?

People connected to Hacienda, the Treasury Department in Mexico City, said they think they are getting about 2–3 percent of the number of tax returns they should get. The number of tax returns for the people of Mexico are so low, it's laughable, and it is one of the reasons for the economic crisis. The government can't raise the tax revenue that it needs.

It is that kind of corruption, that pervasive corruption in the society, that has made this problem worse. In Mexico City the joke is if you have been robbed, don't call the police. You'll be robbed twice.

An honest cop is a guy who charges you from the usual schedule of bribes rather than asking for more because your car is good or you are well-dressed. People joke about that, and I am not here saying anything that a Mexican who knows about the system wouldn't tell you.

Now what do we do as the United States?

We have tried for over a century-and-a-half, some fairly different ways of dealing with the Mexican problem and it has left us a legacy that makes it difficult to talk to Mexicans to this day.

We have invaded Mexico. We have intervened. We have gone to war with them. That doesn't work. We now have to find ways to educate, to work together, to live together.

I think that the place where we really have to begin this is to look at the offshore operations, to look at the ways in which the Mexicans in the financial world are escaping their own country's laws and regulations, and I am now talking about the third country places like the Cayman Islands, where the bank accounts are, the offshore corporations, the countries that will set up corporations with anonymous ownership, nominee ownership. We must try to close down that kind of ability to keep wealth and assets outside of the reach of any kind of government control. I think that is a very important place to begin.

I think we have to work very hard at straightening out the Mexican criminal justice system, and that is going to require education and money and support and ideas, and there are many people in Mexico who will work with us on that problem.

I think the thing that everyone has in mind is that no one can afford to have Mexico collapse. We can't allow the collapse of our near neighbor, and that means a kind of support for Mexico from

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this country that we are going to have to give even at times when we really don't like it.

There are a couple of things though I will say that this subcommittee can do and should.

One of the agencies not here this morning is terribly important. It is the Internal Revenue Service.

When Congresswoman Waters asked this morning how come a known drug dealer could have all those assets and nobody do anything, I thought to myself the decimation of the Criminal Division of IRS is one of the key reasons.

We should have IRS's Criminal Division playing a central role. The problem is their manpower has been cut significantly. Their ability to operate internationally has been undercut in incredible ways. The foreign officers of the Internal Revenue Service have been brought home.

People inside IRS believe that international cases are career destroyers. The international operation of IRS must be funded. The Criminal Division must get the resources it needs to follow up on these issues.

Second, Customs corruption in the U.S. must be controlled. You cannot have an utterly corrupt system on one side of the border with a possibility for making all of that money without having it spill over across the border. I think we have to be extremely careful here to make sure that there isn't pervasive corruption on our side of the border.

I know the Customs Service has just concluded an Internal Affairs investigation and said no problem. People who talk to me say there is a problem and that is something that we should be terribly conscious of and that you have to be incredibly vigilant about.

Finally, there is a problem of complex cases and prosecutors. Every time I have been involved in dealing with money laundering cases what you get is a reluctance, particularly among Federal prosecutors, to deal with them, because the cases are involved. There are hundreds of documents, dozens of witnesses, and complicated stories to tell a jury.

When a prosecutor has a choice between a videotape of some guy taking drugs and you can put it up on the screen and hear the witnesses and we've got a conviction and it is a 2-day trial at best, to go into a 10-day trial on a money laundering case is really something they would rather not do. We have to really give the prosecutors incentives and the signals that these are cases that we want made and we don't just want simple cases of the seizure of drugs and money. We want them to follow through, go to the offshore venues, to figure out who else was involved.

That brings me back to the financial institutions that support this. We cannot have American institutions in the business of providing laundering services for foreign nationals in foreign countries. That is an absolute no, and we should make that very clear to our own institutions at every level.

It is that offshore system that ultimately enables the drug people to invest their money in our markets, to enjoy the fruits of what they have done. It is their way of fencing their stolen goods. We have to deprive them of that ability, and that means we have to look very carefully at the so-called private banking departments of

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the U.S. banks and look very carefully at what kinds of controls there are on those private banking departments.

Are people subjected to the same "know your customer" rule? Do those private banking departments refuse to do business with anonymous corporations where the beneficial ownership is not disclosed? Should anonymous corporations do any business with those private banking departments?

If the question then comes back, "Well, we'll be destroyed competitively if we rule that out, what are we doing internationally to close down the hot money business?"

If you have any questions I'll be delighted to try to answer them.

[The prepared statement of Mr. Jack Blum can be found on page 111 in the appendix.]

Chairman BACHUS. Thank you.

Mr. Whalen, introduce yourself to the panel.

STATEMENT OF R. CHRISTOPHER WHALEN, LEGAL RESEARCH INTERNATIONAL

Mr. WHALEN. Mr. Chairman, thank you. My name is Christopher Whalen. I am Director of Legal Research International here in Washington. Prior to that I have worked on Wall Street and as an analyst at the Federal Reserve Bank in New York.

I am in the process of moving back to Wall Street, so this will probably be the last time I appear voluntarily before a Congressional committee.

I say that having appeared before this subcommittee in the past to discuss Mexico and related topics, and I was thinking about that today as I listened to those fine civil servants make their comments this morning.

There was so much in their comments that I took issue with and that I know is incorrect, I could spend the next hour going through it and detailing it for you, but what I think I will do instead is try and touch on a couple of subjects that are in my prepared text and also some of the issues that came up during the question-and-answer.

For me I think the first issue that I addressed in my letter to you is the whole issue of whether or not an anti-drug, anti-money laundering effort, that is to say an anti-money laundering effort that is tied to anti-narcotics really needs to involve close cooperation with agencies and governmental bodies in Mexico. I would say that it does not.

I think, frankly, to the extent that we cooperate with Mexican law enforcement agencies we are doing ourselves no good whatsoever. We would be far better off operating in Mexico on a covert basis, as we have in the past, and really sticking to our knitting on this side of the border—that is to say, targeting Mexican individuals, Mexican banks, Mexican companies that operate in this country and try and simply enforce the law here, as Representative Waters was alluding to I think very well.

The degree of pervasive—to steal a phrase from Jack—pandemic corruption in Mexican law enforcement today in my mind absolutely precludes cooperation with them. It is not because these are bad people. It is not because these are people who are not at least in some cases well-intentioned. It's because the system builds into

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it the need for corruption even in the most basic way of not paying these individuals adequate salaries.

You can reform all you want to, you can pass all the laws you want to, but if you don't pay a member of the Procurador's office or a police officer an adequate salary, if you don't pay a journalist an adequate salary in Mexico, then they can't be straight. It's just impossible.

I have met members of the Mexican Supreme Court. I have met people in the Mexican bar and the Mexican judicial system who are honest, and they don't have the price of a plane ticket to New York in their bank account.

When you make the choice to be honest in Mexico, you make the choice to be poor.

That is why the system is structured in the way it is. It encourages corruption and it encourages patron-client relationships with people below. It is an entirely pyramidal system, so when you are looking for an honest prosecutor or an honest police official, you are really looking for the Holy Grail because we are all human beings. We all have children. We have families. We have responsibilities. And when you look at that police official who is watching hundreds of millions of dollars worth of drug activity go on around him, you have the answer to your question.

In the back of my prepared remarks, in the back of my article is a photograph of Antonio Ibanez Cornejo, who is basically the senior police official in Tijuana, going to the bullfight with Antonio Lozano, the Attorney General or Procurator General. I like to call him procurator because that's what he really is. Is this man corrupt? Well, I don't know, but you can certainly look at what is going on in Tijuana today under his office and draw your own conclusions.

I am told by sources that I trust in Mexico that he is corrupt. I am also told by a lot of people that I trust that he was the one who had Mr. Ricardo Cordero arrested after I and a number of people talked to him on the telephone.

What I can say to you then is when you have officials of our government sit here and tell you that their top priority is cooperating with agencies of the Mexican government, that makes me believe we have got a big problem.

I think for example this gentleman from the State Department who was here today who wanted to brief you folks in private about the Cordero case, I think he is going to make a very accurate representation of how the Mexican government sees that case, but in my experience when you find people enforcing the law in Mexico it's usually because some political opponent has done something politically incorrect. It's usually a case where the system is using the law to punish those who have stepped out of line, but for all those who are complicit—and remember this is a system that works on complicity—there is no problem in enforcement or whether it is money laundering laws, or what-have-you, is really not an issue.

The second point I would like to make that I generally touched on in my letter, but I think needs to be amplified is something where I disagree with Jack. The reason we can't close on issues like money laundering or democracy or any of these other questions

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that we have between Mexico and the United States is because financial stability is the paramount issue.

I can remember after the bailout began in February of 1995 there were a number of people from this subcommittee and from the full Committee Staff who called me and wanted to know if I wanted to come and appear and talk about what was going on, and I later did appear in front of the Senate Banking Committee to discuss the bailout, but I got the sense that the chairman and some other members of the staff are a little bit afraid to have me come back in front of the House Committee because they were afraid of what I was going to tell them.

As long as we are going to worry about whether or not investors on Wall Street are making money, and we are going to ignore issues like democracy and accountability and transparency, talk about enforcing money laundering laws is a waste of time. We are really just wasting one another's time and we are wasting the time and the good faith of the American public by telling them that we are going to close on a solution through these processes.

As you know, I helped the left-wing candidate in the 1994 Mexican election, Cuauhtemoc Cardenas. A lot of my conservative friends said: "Chris, why did you do that, why did you work for a Socialist?" I'm not sure Cuauhtemoc is a Socialist, but he was the only honest man in the election. If you take a look at the alternatives, could you support the ruling party? No, I don't think so—or the PAN candidate at that time, Diego Fernandez Cevallos, an attorney who represents some very dubious characters in Mexico. There was just a press report in Mexico that Fernandez has got a nice little piece of property at Punta Diamante in Acapulco—this is a place where very, very dubious individuals have been known to keep resort homes.

What I see in Mexico really is a case where if we are going to be constantlye worried about foreign debt, the banking system, financial solvency first—and believe me, Mr. Chairman, that is the priority. Don't let these people equivocate when they come before you—that is it, financial stability—nothing else comes first—then you can't expect them to make progress on issues like money laundering.

I think on a point that was brought up during the earlier presentations was Colombia versus Mexico—which one is the worst? This was basically the thesis I built—the article I submitted in the appendix to my letter.

It is very clear to me that there aren't different cartels in Mexico. There aren't different organizations in these countries. This is one large narco-corporation. It is also very clear to me that the Colombians are more and more working for the Mexicans. I think the Mexicans are really at the top of the food chain when you talk about narcotics.

The reason for that is complicated. It has to do with both distribution and money laundering, but I think at the end of the day the Mexicans are the retailers. They buy planeloads of cocaine. They break them down into smaller packages and that is how it is shipped into the U.S. and they are obviously making the largest part of the drug dollar in terms of profits.

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The Colombians 10 years ago were the only people in the production game. Now every Andean nation is producing and refining cocaine, so to me you have a problem now where it is not this cartel versus that one, or this former Mexican President behind this cartel and what have you. It is one large organism that works together across national borders.

I think at times the Mexican government wants us to believe that there is more complexity here than there really is, just so there is more to talk about, if you will. If you simplify it too much, you start to really identify the central issues, and I think what you have to focus on is that there is nothing that goes on in Mexico that the Mexican government doesn't know about, and there is nothing that goes on in Mexico that the people who were sitting at this table before don't know about.

In a civil case my firm worked on last year we actually were a consumer of FinCEN information. We had a Federal Judge in Houston sign a court order that allowed us to use FinCEN in pursuit of a fraud case, so I am pretty familiar with their data and the kind of information they have.

They have some tools that might be useful in fighting money laundering but I can tell you that the people in the intelligence community who monitor telephone traffic and fax transmissions and computer traffic inside Mexico, they have the information that you need right now. It is just a question of whether or not they want to use it.

They have every telephone conversation that's ever been made in Mexico on a tape out at Fort Meade somewhere. It's all just a question if somebody wants to go and use that information.

Let me make just two last points and then I'll be happy to take your questions.

We have heard a lot and read a lot about the Citibank case involving Raul Salinas. Everybody would like us to believe that Citibank is the only bad bank, the only bank that is out there engaged in money laundering, and everybody in Mexico would like us to believe that Raul Salinas is the only bad one.

There was a beautiful cover story on the front of *Processo* a few weeks ago that said "Uniquo Malo"—and that is just clearly not the case. I think once again the disinformation apparatus on both sides of the border has been working overtime and they would like us to believe that these were just isolated events and now we have these investigations and grand juries underway and we are going to clean it up.

But as Jack would say again, the pandemic description I think is what you have to look at. Every major bank in the U.S. that does business in Mexico, every major European bank that does business in Mexico, or indeed is buying—there are several Spanish banks and Canadian banks that have purchased Mexican banks recently—well, by definition they are involved in money laundering, because you cannot operate in that market without doing so.

I have worked with Mexican bankers. I still do. The description that was made before about them living on cash flow, that is absolutely correct. You don't make money on operations in a Mexican bank. You make money on trading in the market, the ups and downs of the peso, and you make money on the cash flow as was

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said before, remittances, transfers, things like this. You lose money on your loan portfolio.

One guy I talked to a few months ago said, "Chris, my advantage is I don't have too many loans—I've got to write them all off, get them out of here, and then I'll be all right."

So let me just conclude there and as I say, I'll be glad to answer any questions you may have, but I'd ask you to please take a close look at my written submission and I thank you very much.

[The prepared statement of Mr. R. Christopher Whalen can be found on page 157 in the appendix.]

Chairman BACHUS. Thank you, Mr. Whalen. What do we do? What do we do to address this problem? Now, give us maybe some direction, as a subcommittee, of some action we ought to specifically take or something that we ought to be doing we're not doing.

Mr. BLUM. I'll take a crack at sort of summarizing a couple of things that I think might be helpful.

Chairman BACHUS. And you mentioned the IRS and going after them.

Mr. BLUM. Pushing IRS enforcement, giving them the capacity to operate in that world of offshore money which they don't now have would help. To give you an idea of how messed up that enforcement operation is, there has recently been a reorganization, probably the sixth or seventh at IRS in as many years, in which the Criminal Division International Operations is being moved to Baltimore, but the lawyers who advise them aren't, and there is no one in Baltimore who can pick that up and do it. It's that kind of thing.

IRS is trying to make training films to teach people how to do it. They don't have the money to put the film together. We can't starve that IRS operation because there is where the expertise is and they're the people who can go after money laundering. They can track some of that money and use our tax laws to do it.

We also, though, have to go, I think, and work with the Mexicans, push the Mexicans hard on extradition. At the moment, Mexico will not extradite to the United States. We have to push them very hard on judicial assistance and cooperation. Getting anything out of Mexico in useable form for a prosecution in the United States is a real study in futility, and I would defer to my colleague here, who is more expert in it, I am sure, than I. We have to get some kind of functioning judicial cooperation. We can't have that common border and the kind of interchange we have with the current status quo.

We have to work on this problem of the international interspace, where all the hot money disappears, because that's where the bribes get paid, that's where the drug money goes, and we've got to shut it down. That means really doing something about the offshore havens. The British Virgin Islands has 178,000 corporations registered there. They do no business in the British Virgin Islands. Their main purpose is hiding assets for people elsewhere. That is an intolerable international situation. I would guess, of 178,000 corporations, 100,000 are hiding some kind of criminal activity, criminal under U.S. law. And that kind of thing we can do something about. We have the leverage against the BVI, we have leverage against Panama and Aruba, and we should use it.

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Mr. DUTTON. Just on the law enforcement side, I would add to Jack's comments. Getting documents out of Mexico is next to impossible. Part of the problem is their recordkeeping. They do not have sophisticated recordkeeping and sometimes they don't have the records.

The turnaround time, even going through your MLAT treaties, your mutual legal assistance treaties, is anywhere from 3- to 6-months and you don't necessarily get a complete set of records on that.

The other thing, too, is just the priority of combatting money laundering. We certainly have the feeling, at least in the States, that it is not as much of a priority now, or in the last few years. It would be better if money can go into the Federal agencies—IRS is excellent as far as their techniques in the enforcement of money laundering. This filters down to the States and the locals, too. If the Federal government is more active in it, then there will be task forces and we will all be educated and we do a better job of enforcement.

Also, the Federal Government has played a very important role historically in funding State and local programs to combat money laundering and various new things. That's all dried up in the last couple of years. The priorities are no longer there as far as funding these types of programs.

If we had better education and some more funding on the State and local side, your Kern County example that I gave you, instead of stopping two cars per month with currency of anywhere up to $100,000 to $200,000, you could have 15, 20, 30 stops a month, and all that adds up. But if we're really going to try to do this, we have to set the priority for it.

Mr. WHALEN. What would you do? I think the first thing you have to start with is, at least in your mind, have the priorities straight. The reason that political stability is the key priority for the U.S. Treasury in Mexico—that is to say financial stability, it's two sides of the same coin—is because so much of American industry is moving to Mexico. I work with companies that are moving plants to Mexico.

I don't mean they're buying new equipment and they're sending a plant to Sonora or Guanajuata or wherever. They're taking an existing plant in the U.S. that's paid for and fully amortized and they're moving it to Mexico.

When you realize that that's the political issue that drove NAFTA and that's driving really most of our policy, then you come back to, again, square one—can we make money laundering, financial transparency, even accounting, an issue. We're just slowly pushing Mexican banks toward something that looks like GAAP accounting, the loans and loan losses. When that happens, if it does happen, in January, the loan losses of Mexican financial institutions are going to explode. In the past, Mexican banks only reported the interest that wasn't paid on a bad loan. They didn't put the entire item out there on the schedule and say, "No, this is bad."

When we go in the next year, if, indeed, the banks do start following those practices, there's going to be a serious solvency problem in many of these institutions. Many investors will confess surprise.

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I guess for me, the basic necessity for Members of Congress is just to come out and speak very bluntly and very directly, both in public and in private, with people in the Mexican government, with people in finance and in Wall Street.

I think it's very lucky that we're seeing a resurgence of Republican political strength in the country that's manifest in this room today, because we have a Republican chairman, and I can only say, if we can have no more bailouts, if we can stop the open-ended door of forbearance on the part of the United States for Mexico as far as debt and bailing them out every time the currency is devaluated, that will put pressure internally in Mexico for political change, because it's going to make the ruling party less and less attractive, and, believe it or not, the left is not that attractive in Mexico. It ends up being the conservatives who I think have a better chance of taking the future of that country.

There are a number of people I could mention, but I think we're blind in kind of a cold war sense to what is really happening in Mexico. Mexicans are not that different from Americans. They're conservative. They want their family secure, they want a job, they don't want chaos. When these guerrillas were recently causing trouble in rural States around Mexico, those Mexicans look on that with horror. They don't support that. Just the opposite. They end up supporting the government, saying, "Yes, we want order, we want you to go out and get these people who are shooting at members of the military."

But I think Americans have got to realize that the leftist bogeyman doesn't exist in Mexico anymore. Even the idea of anti-gringo/anti-American sentiment is really not that strong among the people I've talked to in Mexico.

What Mexicans generally do want is consistency from us and if they found us saying "No" occasionally, instead of just pulling out the checkbook and bailing the ruling party out, I think that pressure internally would be very beneficial, in the same way—in a lot of ways—it's helped the Republican Party gain control of the Congress.

You know, at the end of the day, our support for the ruling party in Mexico is causing more damage than we know and that's why in a way, drugs, money laundering, what have you, the whole proliferation of problems there that are related comes from the fact that we haven't had political change in that country in 70–80 years.

Chairman BACHUS. All right. Let me ask—well, I'll yield to Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman. Mr. Blum, on page 3 of your testimony, you're talking about the bankers in El Paso being faced with teenagers seeking to cash cashier's checks for hundreds of thousands of dollars, and then you say that they are legally required to cash the checks. Why are they legally required to?

Mr. BLUM. If somebody comes to a bank and they present a cashier's check and the cashier's check is in order and it's in their hands, the bank has to cash the check. The bank can't refuse its own check.

Mr. BARR. Why not?

Mr. BLUM. In other words, if it has——

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Mr. BARR. If they believe it is indeed part of a money laundering, which is an illegal scheme.

Mr. BLUM. What they do is they then file a suspicious transaction report with the Treasury. What these people said to me is, "Look, we know something wrong is going on here, we fill out the form, and there are even times when we call people and tell them something is going on in our office right now, but we can't—we can't stop the transaction and process, because under commercial law——"

Mr. BARR. Why not?

Mr. BLUM. Under commercial law, they've got to cash the check.

Mr. BARR. There's not any provision in the U.S. Criminal Code that I'm aware of that——

Mr. BLUM. It's civil. It's civil. They say——

Mr. BARR. Hold on. Let me at least—I know you know a lot about this and I'm agreeing with everything you're saying. But I'm not aware of any provision in the Criminal Code that would make—that would force—a bank to have to honor or to cash a cashier's check which it believes, in good faith, is part of a money laundering scheme. In other words, the bank would not be criminally liable for a failure to cash the check, would they?

Mr. BLUM. No. The problem is civil and the problem is that we work on a system where a negotiable instrument has to be negotiable. We really—that's one of the important elements of commerce. You can't have a bank or people hold up a cashier's check.

Mr. BARR. Right. But who would sue them? Who would sue them?

Mr. BLUM. Presumably, someone who was injured by the fact that that check was not cashed.

Mr. BARR. Who would that be?

Mr. BLUM. It might, in this case, be a legitimate person who they misjudged as being a drug dealer. It might be the very person who has the money, then goes after them and says, "Look, you didn't cash my check and you damaged me and here is what I am going to collect."

Mr. BARR. If all of the banks got together and said, "Look, we all know what's going on and we're just not going to cash these things and we all agree to it, and, therefore, the person that comes in to our bank and we refuse and so they just go to another bank or something," that's not going to be an option for them. Would that work?

Mr. BLUM. I think that you're putting the banker in an impossible situation. There is a legitimate need for negotiable instruments. If I'm buying a house, I may have to have a cashier's check to pay at the closing. That cashier's check had damn-well better be honored right on the spot, or else the title to the house is going to be no good.

There are hundreds of commercial situations where you have to have commercial paper that will be honored in an appropriate way. Now, to put the banker in the position of sorting out this guy is a drug dealer, that guy isn't, maybe the guy who comes in is dressed funny and he's 19 years old and you can say he's a drug dealer, maybe it will turn out that he was a rock star who just hap-

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pened to be coming into the bank and doing this particular transaction.

I think it's unfair to put the banker in the position of being the policeman. We've already pushed them to the point of saying they've got to file a suspicious transaction report. The problem is that reporting and regulation is all keyed to being able to track the people, catch up with them later, get law enforcement people on the scene. And what I'm suggesting with that story is you can't get the law enforcement people to respond to the reports quickly enough to have them be useful.

And I don't know how we speed that process up short of stationing people in the bank literally to watch, so that when the teller has a problem, he can get the policeman to come over and have a look at the transaction.

Mr. BARR. We don't want that and I know from my prosecutorial background how difficult it is. I mean, we have these reports and then it's very difficult to find the people to monitor them and to do something with them.

I just don't quite buy the argument that there is nothing that these bankers can do. I mean, to my way of thinking, they elect to cash that. Now, maybe part of it is because they just don't want to get sued. I don't think that there would be that many people that would sue them, to be very honest with you.

Drug dealers and smurfs and so forth don't sue banks. I mean, they just don't, for obvious reasons. I mean, wouldn't—I mean, don't the banks—wouldn't the banks even have enough backbone to stand up and say we're going to at least require that somebody be 21 years old, and maybe then if it keeps being a problem, yes. We want to do everything we can under the UCC and so forth to foster commerce, but saying that we have a legitimate reasonable suspicion that this is money—that this is a bad transaction, it smells bad, and we're going to do something further before we just say, oh, OK, this is $100,000 and you're 15 years old and that's fine, we want to foster commerce, so here's the money.

I think they are, to some extent, just sort of shifting the problem off to somebody else.

Mr. BLUM. Well, I don't disagree that there might be a way to push the bankers to do a little bit more to say no, but I think it's not a simple question. It's not simply a matter of——

Mr. BARR. Maybe we ought to start with just say no programs for bankers.

Mr. BLUM. Don't do this because there are a lot of risks, there are a lot of issues. There is a question as to who has the authority to do it. If it's presented, does the teller have the authority, does the bank president, at what level?

Mr. BARR. Those are easy questions. I mean, if it's more than a dollar amount, the teller goes to the branch manager. I just think it would be relatively easy to develop guidelines that the banks could use voluntarily that—maybe it won't stop this, but it could slow it down a little bit.

Mr. BLUM. I am probably the wrong person to talk to about that. I suggest one good way of getting into it would be to bring in a few of those bankers who are working the problem at the street level

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in El Paso and in southern California and elsewhere and get them to discuss the practicalities of how to handle it.

Mr. BARR. That might be a good idea. We could do that or the Treasury could make you do it.

Mr. BLUM. I have been in a meeting room where they have been meeting with the field people from DEA and other law enforcement agencies and they go back and forth and the DEA guys say, "Well, we find out about that way later and we can't do anything," and this may be an area where working together we can figure out a way to solve that problem. That's not beyond solution, and I think it would be productive.

I just don't think the issue is purely, well, if we write more regulations, we can solve it. I think you have to get a practical working-level solution.

Mr. DUTTON. What could be considered—if I can interject. There are safe harbor provisions already in the anti-money laundering statute of 1994 and that go to disclosing the suspicious transactions to law enforcement. It's basically a safe harbor against civil liability. That doesn't mean people still try to sue, they do, but so far the courts have upheld safe harbor provisions.

You could have something similar to that for banks who refuse certain suspicious transactions and give them at least that statutory protection. Some of the things we've used in California—is a court order that we can freeze assets for just two or three days—which gives the investigators extra time to look into the whole situation to see whether or not we actually have probable cause to actually go ahead and forfeit the assets.

So there are things that could probably be worked out in that area.

Mr. BARR. Would any of the three of you be willing to take a crack at maybe drafting up some legislation along those lines that we could look at?

Mr. DUTTON. I'd certainly be willing to work with them. I agree completely that the banking community has to have major input on this. They're already totally burdened with lots of regulations. But I would be more than willing to work in a working group toward that end.

Mr. BARR. OK. So we can get in touch with you. I mean, I'd like to explore this over the next several months and into next year perhaps.

Mr. DUTTON. And I know we all have contacts in the banking community, as well as IRS-CID who have been working on this type of thing, so we could put some sort of working group together.

Mr. BARR. OK. Thank you. Mr. Whalen, did you have any thoughts on this particular topic?

Mr. WHALEN. Well, as Jack knows, I'm a staunch civil libertarian, but there's really not much in this society you need $200,000 in cash for. I mean, you can't even buy a——

Mr. BARR. Especially if you're 18 or 19 years old.

Mr. WHALEN. Well, that's the issue. I was just thinking, I have some pretty crazy friends in finance and the music business and everything else and they might not look too presentable, but you can't buy a car today in cash for $20,000. You really can't use cash for large transactions and I—as I say, I'm very much of a libertar-

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ian, but I can't believe something couldn't be done about this, because it's just unreasonable.

Our Constitution has a threat of reasonableness embedded in it and this is really unreasonable. Don't forget Laredo, by the way. There are several banking institutions in Laredo you should include on your list if you have more hearings.

Mr. BARR. OK. I'm not in a position to call hearings, but I think, Mr. Chairman, this might be something interesting, sort of as a follow-up to this, to have some of the banks come in and explore this, because I would think that there would be both possible legislation that would help the banks, as well as some things that, maybe with a little bit of prodding, some of the banks would do voluntarily.

Mr. BLUM. Mr. Barr, there is another area you might want to consider. There is a so-called "payable through;; account system—that is a troublesome area in this field, and that is where a bank in the U.S. allows a foreign bank to use an account at the American bank as a way to give its customers access to American banking.

So if I'm a National, let's say, of Panama and a bank in Panama has a "payable through" account in Miami, they will give me checks on their Miami bank, which I can then write in the United States. It's not at all clear to me that we have adequate disclosure and control on most "payable through" accounts to assure they're not misused.

Mr. BARR. Is that similar to the problem we were talking about with some of the folks on the earlier panel?

Mr. BLUM. I don't think so. I think that this is another area that is perhaps a money laundering vulnerability that you should be looking at. I don't recall them specifically mentioning "payable through" accounts.

Mr. DUTTON. I believe in that particular area, FinCEN is looking into regulations, if they haven't already passed something recently, trying to deal with that problem, along the lines of know your customer and not allowing these anonymous outside-the-country insulated account holders.

Mr. BLUM. The problem becomes with the anonymous corporations—who gets to sign for them? A very difficult area.

Mr. BARR. Were you all present at the earlier testimony?

Mr. BLUM. Yes.

Mr. DUTTON. Yes.

Mr. BARR. Because toward the end there in the questioning, we asked Mr. Morris about some regulations and he said that we can expect to see some of those draft regulations within a month.

Mr. DUTTON. That was toward the Mexican bank drafts.

Mr. BARR. Yes. So the drafts, is that related? Is that the same sort of problem, just a different permutation of it?

Mr. BLUM. I think it's recordkeeping with respect to the drafts. It's related to the same problem. It's a variant of the same problem. What's happening there is the Mexican banks are writing checks on their correspondent accounts.

What I'm talking about are not correspondent accounts. It's a separate category of account. The correspondent account would be on the Mexican banker. I have an account at an American bank.

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I then write a draft or give a cashier's check, which, in effect, is drawn on the American bank, and that's different than a "payable through," which is a private customer.

Mr. BARR. And these "payable through" accounts are basically just comity for the customer?

Mr. BLUM. The customer now can write a check on an American bank, but it really deals with his bank account in his own country. And the question then is: Who knows who that customer is; is it a real customer, how do we back-track and know that the bank account here is being used for an appropriate purpose and is this a way of getting around our know your customer and other bank rules?

Mr. WHALEN. If you take a look at what's going on in electronic banking now, if you look at a U.S. check, the coding on the check with the numbers, there's no country code on a check yet, but we're very rapidly heading in that direction.

Now, there are a number of American banks right now that have set up relationships with Mexican banks to clear physical items, even a dollar check on a Mexican bank can't be cleared through the Fed wire right now. It's got to be handled by hand.

But we're going to, I think, very soon get to the point where they're going to move those numbers over to the right a little bit and you're actually going to have a country code on a check so that it can be cleared electronically. And then the next step, of course, is when all of these items become purely electronic, and that's going to make the enforcement task just about, if not, impossible.

If you think of how many items go through the Fed wire every day, if you then start adding foreign transactions to that flow, it could get to be extraordinary, because what Jack is describing, this "payable through" account is a kind of an intermediary way for a foreign bank that perhaps has a dollar account for its customer to get around this issue of clearing. It can take—I'll give you an example:

I have a little newsletter I get in Mexico City. I paid for it in March. I still haven't gotten the check back. They have been paid, they have their funds, and somewhere in the Mexican banking system my check is floating around. It's probably been endorsed two dozen times and it's just out there in the ether, because it's very difficult to clear items back to the United States.

But this is an issue that the marketplace right now is looking at very hard, and they're going to come up with solutions that are going to add enormous complexity to this regulatory issue.

Mr. BARR. Thank you. Thank you.

Mr. Chairman.

Chairman BACHUS. I've got really two questions. One is I want to talk about how corrupt the Mexican system is. Then, second, I want to talk about how it can corrupt our system. I'm worried about us being infected by them.

We had a lot of talk about American ideas and American ways of doing business and with NAFTA, we'll sort of Americanize the Mexican system. But you have to worry about us becoming a part of that system.

So my first question, and that's what I'm getting to, can they corrupt us? I mean, do we end up locking ourselves into what every-

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one agrees is, to a large extent, a corrupt way of doing business and a corrupting amount of money, do we then become corrupt?

Let me start out by saying this, Jack, and all of you. I think, Chris, in your testimony, you mentioned that the drug profits, Mexican drug profits exceed the revenues for the State Oil Monopoly Company in Mexico and the whole revenues of—how do you pronounce it?

Mr. WHALEN. PEMEX.

Chairman BACHUS. PEMEX. Their total revenues are less than the profits generated by the Mexican drug trade?

Mr. WHALEN. Right. If you use that $30 billion profit figure, PEMEX's revenues are about half of that.

Chairman BACHUS. So how corrupting is that money on the political process, on the government, on business in Mexico? How much of the business do they control? I mean, at some point, they're not going to be able to heal themselves without some outside intervention or revolution or whatever, quite frankly.

Mr. WHALEN. First off, let me say, as a student of Mexico, I'm often called an enemy in Mexico by the government, but I like to think the opposite because they don't, in fact, have authorship of this problem. It's a problem we create through consumption of drugs and it's also, I think, a function of a lot of other factors. There are those who think that the American refusal to kill off the heroin business in southeast Asia in the 1950's has led to a larger expansion of drug use, more generally.

This is kind of like what we face in prohibition. The money is so large and it is so enormous compared to all other kinds of economic activity—before, the earlier witnesses talked about it as a business, and it is a business. It is an enormous business. It employs tens of thousands, perhaps even hundreds of thousands of people. It involves all sorts of different resources, aircraft, trucks, you name it.

So it is, in my mind, today, very clearly the largest industry in Mexico. Just a shipment of drugs that are made somewhere else. You know, they don't produce cocaine in Mexico. It comes from South America. And I think it's important to look at it in that way.

You have farmers in Bolivia. Are you going to tell them, "Well, grow something else." Grow what else and make that kind of money?

See, I think at the end of the day, prohibition is not the answer. You have to teach people not to use drugs. You have to win the moral argument and then the rest of it becomes easy. When you are going to constantly—look at Bill Bennett, for example, saying we're going to go fight the drug war. Is he going to go deploy American troops in Mexico? Is he going to deploy American troops in South America? Are we going to overthrow these governments that look the other way while narcotics trafficking is going on?

All these other measures are halfway or even a third of the way expedience, but don't begin to scratch the surface. And as Elaine Channing said in her wonderful book about the Camarana case, the choice is between silver and lead. If you've got some Customs Service official in Ote Mesa who sees the stuff coming across the border every day and if he can't take an investigation to Washington and get action on it from the Justice Department, that is the case right now, then what are they going to do?

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They say the same thing in Mexico. If you happen to have an honest official who wants to go after something and he does get support from Mexico City, well, what do you do? So I think, unfortunately, the legalistic remedy is not working. I personally have always taken the libertarian view. I'd rather see them legalize drugs and go out and teach people why it's wrong. Because our society is so messed up. Well, we're going to go out and prevent people from doing these things and the market is going right around them.

We could literally deploy just about every man and woman in uniform in this country along the border, in South America and some of these countries, and I don't know if it would do any good. In fact, I'll tell you, the guy with the money in his hand would be going out and buying these people.

When I saw President Clinton talk about putting the National Guard and the Armed Forces into the drug war, you remember what happened when the Bush Administration did this? The Navy came back to the White House a few months after they tried this, with the AWACs, planes and everything else, and they said, "Get us out of here," because their people were starting to be subordinate. The Coast Guard has had this problem for years.

You see retirement rates, you see people being rotated very frequently in the Coast Guard because they are right up against it and you have some narcotics trafficker offer them a lot of money or threaten to kill them or threaten to go after their families.

So that's what this is about. It's just the money that makes it so difficult. In fact, the laundering I think is the worst part about it just because it corrupts, as I've alluded to in my written statement, our political system. It corrupts the justice system in States like Texas and Arizona, where you can't get prosecutions against certain people.

If you go down to San Antonio, it's become a haven for narcotics traffickers. I was so glad to hear the former chairman say we should have an investigation down there. That's exactly what we need, but it's more than that. If you don't realize, as we did in the 1920's and 1930's, that, you know, at the end of the day, we created monsters. When we had Prohibition, we empowered the people who were running booze and we turned them into some of the most powerful people in this country, and we've done the same thing here.

You know, the funny thing, too, by the way, Jack said before that Mexicans don't extradite people. That's not true. They've sent us Juan Garcia Abrego, they've sent us a bunch of other people this year.

That was just pure political theatre. That was to enable the Clinton Administration to recertify Mexico's cooperation. But the fact of the matter is, the people who run the drug business in Mexico you've never heard of. You've never read their names in the newspaper. They're not the head of these cartels. They're very different people from that altogether.

Mr. BLUM. I must say I disagree on the notion of legalization, for a whole range of reasons that go beyond the pure economic. Criminal law reflects the values of this society and you can't send a signal in your society that something you really think is wrong is

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legal, because that's a signal that it's OK, and that's a very difficult, difficult arena.

And in the end, the debate really isn't legalization or criminalization. It's what kind of controls you put on it. I can assure you, even if you took away certain criminal sanctions, you'd wind up having to regulate it, and look at the kind of problem we have with the banks today. So we can play that any number of ways.

I think the problem of corruption, though, on our side, is a very severe one. I sat talking to Customs agents and after a while, if they had been in a very frustrating situation, they'd come back and they'd say to you, "We're going to form a street theater; you know, we bust somebody today and there are six guys back here tomorrow."

There's a question you ask: "Should I risk my life so that somebody can have a press conference," and we know the flow will continue with the same rate and then someone else says, "Why should I take $25,000 or $30,000 a year?", which was true in Miami when agents would walk into a room knee-deep in hundred dollar bills. How difficult is it when you're making $30,000 a year and you have a couple of kids, not to put one or two of those hundreds in your pocket? Once you've done that, where do you stop?

As long as we have a border situation that is that rife with trouble, the potential for corruption on our side is enormous and that means tremendous attention to rotating people, to internal affairs, to paying attention to corruption as a danger. I don't think we've done enough of that.

Mr. WHALEN. Let me give you an example, embassy personnel in Mexico City, intelligence personnel, attaches from different agencies, I wouldn't let them live in Mexico. I'd rotate them in and out of there every 3 months. I wouldn't let them have their families in Mexico City because you don't want them to get acclimated.

It's not just clientitis, it's more than that. You want to get them in and out all the time and have new faces constantly. You work them in teams, perhaps. I don't know exactly what the answer is.

Let's assume Jack's right, we won't decriminalize drugs, but you still have the issue of what you do in terms of your personnel and law enforcement when they're up against this kind of financial power. It's essentially that, if they can't buy you, they'll kill you.

Mr. DUTTON. I think more on the local and State level, there are lots and lots of narcotics agents throughout the U.S. who are working domestically, who run across money and things of that nature, who are not pilfering hundred dollar bills and things like that. They have resisted this and I think, for the most part, they will continue to resist this, but it does have its corruptive influences.

The more money, the more you're exposed to the culture, i.e., in Mexico, the higher the risk of corruption. However, what I'm worried about is that all this cash and money that is flowing in the U.S., even in payment of cash to small businessmen who are otherwise legitimate, honest, upstanding people, all of a sudden they're looking the other way. Because they want—it's great. To be paid in cash, e.g. $4,000, they don't have to pay the 2 percent discount on VISA or whatever. They think, "Maybe it's drug money, maybe it's not, but I'm going to take it anyway."

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So that's the problem and that gets a little more pervasive. We're not going to have a society where it's a standard situation to take a $500 bribe before you do everything, but you're going to have that corrupting influence and I think whatever money we can put into the drug demand side, that's more the ultimate solution.

We can keep on ramming our heads against the stone wall here as far as cutting off the supply and that type of thing. We've got to cut back on the demand.

Mr. BLUM. I will come back with one other thing though. The issue of corruption in Mexico goes far beyond the issue of drugs. Mexico is our most important foreign policy problem; it's our most important neighbor. There are 93 million people in Mexico.

We are, as I say in my statement, married to Mexico in many, many different ways. It is an extraordinarily painful and difficult situation when you have a country that we're so closely related to in so many ways with this level of corruption, because inevitably it will infect all kinds of things—business dealings, environmental issues, public health and safety issues, whether products are manufactured properly or whether they are adulterated. We have to be able to trust what's going on on the other side of the border.

I think that involves our using some other tools. Public education is one of them. We have used very effectively during the cold war the USIA to promote certain kinds of American ideas and ideals. I think we're not doing enough of that in Mexico. We cut that budget. We should do a lot of it there, but this is a problem that goes way beyond drugs.

Chairman BACHUS. I was just thinking, Mr. Dutton, the mind—or the imagination—is the only thing that prevents us from saying how this money corrupts. You were talking earlier about you can't buy a car with cash.

Mr. DUTTON. No.

Chairman BACHUS. But you really probably could if you found a dealer——

Mr. DUTTON. Oh, you definitely can. It's going on all the time.

Chairman BACHUS. And what you're saying is there's none reported.

Mr. DUTTON. Well, yes, they keep the cash and do not report it.

Chairman BACHUS. But you know, if you've got two car dealers in a town and one will take cash and not report that sale, or he will report a sale at $15,000 when it's $20,000, he actually gains an advantage over his honest competitor.

Mr. DUTTON. Absolutely correct.

Chairman BACHUS. And your competition determines your price and we all know the price you charge and your competition to a large extent determines that. I think the practice is out there, the practice is determined by the competition to a certain extent, and you don't want this pulling down. I can see this happening all over.

Even with banks, banks compete against one another. We had a bank that we talked about that is facilitating some things for Salinas. Well, I'm sure they've got a lot of business in Mexico and that business can go to one bank or another and you're talking about a tremendous amount of money. A lot of legitimate business can go from one bank to another if they're willing to do this or do that. So it's a scary situation.

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Mr. WHALEN. Well, ask yourself a question, Mr. Chairman, what banker in his right mind would go in and buy a Mexican bank right now? Just think about it that way. Having worked in bank examinations, there is no way in God's green Earth that you could perform a due diligence so that you would know what you were buying. The answer is that they're buying the franchise; they don't care what the assets look like, they don't care what the operations of the bank look like. They're just going in because the thesis is: "If I get into this market, there's going to be so much cash flow of whatever description, that it's going to make it worth the while and I can write off the rest."

Chairman BACHUS. I will tell you some good news that I heard, and I didn't think in this hearing today I would all of a sudden say that maybe this is something we've got going for us that may actually do more good than anything else toward this problem and the narcotics trade and all this. What you're talking about is consumption ultimately, if you cut out consumption.

Coincidentally, I talked to a friend of mine that is a contractor in Birmingham. He employs 60 people. He announced a few weeks ago—and I'm not going to share who this is—he announced that he was going to start drug testing and two of his long-time employees had a conversation with him and took 3 weeks off and they are coming back to work in 3 weeks.

You can bet that those people are probably not going to be consumers anymore because they've worked for that company a long time and they've apparently been using drugs, but once he starts testing, he's going to have 100 employees or 60 employees who no longer use drugs or who don't work there, and you will have some of those people that will stop using drugs.

So I think drug testing may be one of the best tools that we have in America today. People are beginning to do that. People are beginning to drug test.

Mr. WHALEN. But, see, it's a very powerful weapon because by whatever means, morally, it doesn't matter, if you attack it that way, then you kill them.

Chairman BACHUS. I told a friend of mine about this company, this contractor, that he was going to start drug testing and he said that he was going to get his teenage son to start working there. I thought that was a good observation.

Well, this concludes our hearing. I very much appreciate your testimony today. This will not be our final hearing on this. Thank you very much.

Mr. WHALEN. Thank you.

[Whereupon, at 3:04 p.m., the hearing was adjourned.]

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APPENDIX

September 5, 1996

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Rep. Henry B. Gonzalez Urges Treasury's FinCEN to Step Up Its Efforts in Combating Money Laundering in South Texas

Attached: August 5, 1996 Letter to FinCEN Director Stanley Morris and FinCEN's August 23, 1996 reply

Washington, D.C., September 5, 1996 -- Rep. Henry B. Gonzalez (D-San Antonio, Texas), ranking Democrat on the Committee on Banking and Financial Services today encouraged Financial Crimes Enforcement Network (FinCEN) Director Stanley Morris "to fully utilize the tools given them in the 1994 Money Laundering Suppression Act to combat money laundering in Texas' financial institutions."

Rep. Gonzalez said, "On August 5, 1996 I sent a letter to FinCEN, the primary agency under the U.S. Department of the Treasury responsible for overseeing and preventing money laundering, to analyze the following: 1) the sources of a $3 billion cash surplus in the San Antonio branch of the Federal Reserve, 2) how this surplus corresponds with an increase in the filing of suspicious activity reports, 3) the amount and nature of suspicious financial activity being reported, and 4) state and Federal efforts to prosecute money laundering crimes on the basis of the suspicious activity reporting system in place."

"FinCEN responded only in part to my request and the data they provided leave many questions unanswered about the extent of money laundering in Texas' financial institutions," said Rep. Gonzalez. "I hope their final response, due in mid-September, will shed light on why banks in small communities near the border, or in San Antonio, have such large cash surpluses. It should be a simple task for FinCEN to correlate these banks' large cash surpluses with increases in the filing of cash transaction or suspicious activity reports."

"We have given FinCEN the tools to help the public understand whether the banks we trust with our money are serving as money laundering centers," said Rep. Gonzalez. "In the end, FinCEN's analysis should either lay to rest suspicions of illicit currency movement or prove money laundering activity."

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FINANCIAL CRIMES
ENFORCEMENT NETWORK
2070 Chain Bridge Road Suite 200 Vienna, VA 22182 Telephone (703) 905-3520

AUG 23 [illegible]

Honorable Henry B. Gonzalez
Ranking Minority Member
Committee on Banking and Financial Services
U.S. House of Representatives
2129 Rayburn HOB
Washington, DC 20515

Dear Congressman Gonzalez:

Thank you for contacting the Financial Crimes Enforcement Network (FinCEN) regarding press articles which cite alleged money laundering activities taking place within the state of Texas. In your letter you requested that FinCEN supply you with an analysis of the sources of cash surpluses at the San Antonio Fed branch; the extent to which these surpluses correspond to an increase in the filing of suspicious activity reports by financial institutions in the San Antonio area; the number of currency transaction and suspicious activity reports filed in 1995 and 1996 by financial institutions in the San Antonio area; and, the state and federal prosecutions that have resulted from the filing of suspicious activity reports.

Although the full analyses you requested will take additional time to complete, I felt you would find the preliminary analysis of the manifest data from the San Antonio Federal Reserve as explained in the attached materials of interest. FinCEN is in the process of analyzing the Federal Reserve manifest data from 1994 and in comparing this information with the 1995 data cited in these materials. This will enable us to identify any noteworthy changes in surplus patterns. FinCEN is also analyzing Currency and Monetary Instrument Report (CMIR) data for 1994 and 1995 for the ports-of-entry in South Texas. The purpose of this analysis will be to identify correlations between the currency being deposited at the Fed and currency being declared as transported into Texas from Mexico and elsewhere. We will provide you with the analysis in mid-September.

As you also point out in your letter, the Money Laundering Suppression Act of 1994 provides law enforcement with several legal and regulatory tools to combat financial crime. FinCEN has worked closely over the past two years with the law enforcement, regulatory and financial services communities to implement these tools. The result has been increased cooperation from financial institutions and a measurable improvement in the quality of the reporting data received from them. For example, the Suspicious Activity Reporting System (SARS), was put into effect in April.

FinCEN has also been working to craft a rule which would apply to foreign bank drafts. Our effort has been focused on achieving the intent of Congress to close the reporting loophole for these non-bearer monetary instruments without creating unnecessary costs or burdens on

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legitimate trade. A proposed rulemaking announcement is expected to be published within the next six weeks.

Because the SARS program is new, FinCEN does not yet maintain information involving prosecutions. Financial investigations are very complicated and the prosecutions can take many months, even years. In addition, the reports can reflect many variations of financial crime, making it difficult to identify specific money laundering violations. We have enclosed some statistical data from the Department of Justice which may be helpful. In addition, the Office of the Texas Attorney General advised that they do not maintain a central information source on criminal cases from which the numbers you have requested can be extracted. The Texas Uniform Crime Reporting Program compiles broad categories that combine money laundering offenses with underlying offenses in a report entitled "Crime In Texas." From available records, it can not be determined how many investigations involved the use of Suspicious Activity Reports. However, other statistical information from the Office of the Texas Attorney General is attached.

I appreciate the opportunity to be of assistance to you. If you have any questions please do not hesitate to call.

Sincerely,

Stanley E. Morris
Director

Attachments

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Attached: Letter to Stanley Morris, Director of Financial Crimes Enforcement Network

WASHINGTON, D.C., August 6, 1996 -- Rep. Henry B. Gonzalez (D-San Antonio), ranking Democrat on the Committee on Banking and Financial Services today asked the Financial Crimes Enforcement Network (FinCEN) to determine and monitor the extent of money laundering activity in Texas' financial institutions.

"Recent press reports indicate that over $30 billion in drug profits is laundered annually in the United States, much of it in San Antonio, Houston and the Rio Grande Valley. To determine the course of action for combating future money laundering activity, I have asked the FinCEN, the primary agency under the U.S. Department of the Treasury responsible for overseeing and preventing money laundering, to analyze the following 1) the sources of a $3 billion cash surplus in the San Antonio branch of the Federal Reserve, 2) how this surplus corresponds with an increase in the filing of suspicious activity reports, 3) the amount and nature of suspicious financial activity being reported, and 4) state and Federal efforts to prosecute money laundering crimes on the basis of the suspicious activity reporting system in place."

"I share your commitment to tackling money laundering and its associated illegal activities," Rep. Gonzalez wrote to FinCEN Director Stanley Morris. "During my tenure as Chairman of the Banking Committee, we held a series of hearings in Washington and San Antonio to review all federal anti-money laundering efforts, which culminated in the passage of legislation to strengthen money laundering statutes. As a result, the Money Laundering Suppression Act of 1994 simplified currency transaction reporting requirements for financial institutions and their regulators to target suspicious activities."

"We have given FinCEN the tools they asked for to combat money laundering," said Rep. Gonzalez. "Now it is up to them to use them."

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(202) 225-7502

August 6, 1996

Stanley Morris
Director
Financial Crimes Enforcement Network
2070 Chain Bridge Road
Vienna, VA 22182-2536

Dear Director Morris:

Recent press articles have highlighted drug traffickers' use of Texas financial institutions to launder their illicit profits. In 1994, for example, two American Express International executives were convicted of laundering $30 million for a Mexican drug cartel. In another case in San Antonio, a Kansas preacher was convicted of conspiring to launder $10 million of drug profits. Both prosecutions point to the need for increased vigilance of large-scale money laundering activities in Texas banks. I am therefore writing to request your assistance in determining the extent to which money laundering activities in Texas financial institutions are occurring and FinCEN's ongoing monitoring of these activities.

As you are well aware, the coffers of the San Antonio branch of the Federal Reserve Bank of Dallas contain a $3 billion currency surplus. To some, this represents a money laundering red flag. Others argue that Fed cash surpluses have many explanations. Both assertions, however, require proof. Such proof can only be obtained by a thorough examination of the wide range of data available to FinCEN. In light of this, please provide me with the following information:

(1) An analysis of the sources of cash surpluses at the San Antonio Fed branch, including the number and types of the financial institutions, and the size of their transactions with the Fed;

(2) The extent to which San Antonio Fed cash surpluses correspond with an increase in the filing of suspicious activity reports by financial institutions in the San Antonio area;

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(3) The number of currency transaction and suspicious activity reports filed in 1995 and 1996 by financial institutions in the San Antonio area; and,

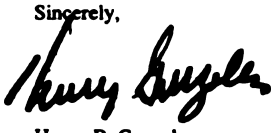
(4) The state and federal prosecutions that have resulted from the filing of suspicious activity reports.

I share your commitment to tackling money laundering and its associated illegal activities. During my tenure as Chairman of the Banking Committee, we held a series of hearings in Washington and in San Antonio to review federal anti-money laundering efforts, which culminated in the passage of legislation to strengthen money laundering statutes. We worked closely with law enforcement agencies to provide them with the best legal and regulatory tools to fight financial crimes and to move beyond simply detecting money laundering to actually prosecuting the crime. As a result, the Money Laundering Suppression Act of 1994 simplified currency transaction reporting requirements for financial institutions and their regulators to target suspicious activities. The bill mandated that financial institutions establish "know-your-customer" policies, and also required them to submit suspicious activity reports when warranted. In addition, the bill closed a loophole in existing law that allows money launderers to use non-reportable monetary instruments in non-bearer form (i.e., foreign bank drafts). However, it is my understanding that, to date, FinCEN has yet to issue the regulations that would, in effect, close this loophole. As a result, foreign bank drafts remain a tool at the disposal of money launderers.

I look forward to your reply and thank you for your cooperation. If you have any questions concerning this request, please contact Mr. Jaime E. Lizarraga of my staff at (202) 226-7320.

With best wishes,

Sincerely,



Henry B. Gonzalez
Ranking Minority Member

HBG:jel

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U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON GENERAL OVERSIGHT
AND INVESTIGATIONS
OF THE
COMMITTEE ON BANKING AND FINANCIAL SERVICES
ONE HUNDRED FOURTH CONGRESS
212 O'NEILL HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

OPENING STATEMENT

CHAIRMAN SPENCER BACHUS
GENERAL OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE
COMMITTEE ON BANKING AND FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 5, 1996

The war on the drug cartels begins with a comprehensive effort to interdict drugs entering the country. However, it can't end there. Drug cartels don't smuggle drugs as a public service -- they do it for the billions in profits they rake in.

We have two opportunities to get the drug lords; one when they bring drugs in and another when they take the money out.

The immense magnitude of the drug profits makes the war on money laundering critical. If we are to eliminate their motive, we have to hit their bottom line.

Drugs corrupt and destroy our young people; drug profits corrupt our economy, our financial institutions and potentially our law enforcement agencies.

[Congressman Bachus will insert drug use facts.]

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That is why we are here today to review the U.S. law enforcement response to the money laundering activity associated with narcotics trafficking across the U.S./Mexico border. If we are in fact still conducting a war on the drug cartels, we -- by any objective standard -- are losing on all fronts in the battle against the drug cartels' money laundering operations.

Drug smuggling has always been present along the border between the U.S. and Mexico. In the early 1990's, however, smuggling along the Southwest border increased dramatically as the focus of transporting illegal drugs shifted from south Florida to Mexico. Law enforcement officials estimate that as much as 70% of all illegal narcotics now enter the U.S. through Mexico. This shift to Mexico can probably be attributed to a number of factors, including the increased federal and local efforts to attack drug smuggling through south Florida in the late 1980's and early 90's and changes in the leadership of the South American drug cartels.

Corresponding to the shift in drug smuggling, U.S. law enforcement agents have seen an increase in the amount of drug proceeds being laundered through Mexico. As recently as March, the Department of State identified Mexico as "the money-laundering haven of choice for initial placement of U.S. drug cash into the world financial system." The GAO concurred in a separate report issued this past June. Estimates of the amount of cash laundered through Mexico range from $6 to 30 billion.

Over the years, fighting money laundering has been a bipartisan priority in the U.S. Congress. Both Chairman Leach and former Chairman Gonzalez have been instrumental in providing necessary tools for law enforcement. One primary tool is the Currency Transaction Report or "CTR" requirement. Under the CTR, banks must report all transactions exceeding $10,000. Thanks to this law, the efforts of our law enforcement forces, and the

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integrity of our financial industry, the laundering of drug profits through U.S. banks is extremely difficult. There is no similar safeguard in Mexico; once drug profits are in Mexican banks, the cartels are free to transfer the money and spend it anywhere in the world. Given today's highly advanced technology, this is a simple matter indeed.

This would not be a problem if we had better enforcement of the Currency and Monetary Instrument Report or "CMIR" requirement. Under the CMIR, anyone leaving the U.S. with cash in excess of $10,000 is required to file a report with the Customs Service. In theory, this is a tool to prevent outbound smuggling of cash en route to Mexican financial institutions.

It appears, however, that the drug cartels are laundering with little opposition. The method is simple: they drive truckloads of cash into Mexico. The U.S. Customs Service, the agency responsible for stopping the flow of drug money out of the country, searches fewer than 3 percent of the cars leaving the U.S. for Mexico, and what we hear from field agents is that almost none of the billions in drug profits is intercepted. Statistics bear this out: last year, Customs Service seizures of currency declined to less than $4 million along the Mexican border.

Currently, a drug trafficker with stockpiles of cash in Chicago or L.A., can simply drive the cash to Mexico with virtually no chance of being challenged. One must ask: is this the best that we can do?

This hearing should not be seen as belittling or in any way denigrating the tremendous effort of the Customs Service and its agents. The Customs Service is an organization with a proud history that is charged with doing the tough work in the trenches in the war against drugs. As with any front-line troops, the

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Customs Service's success is tied to the amount of support it gets from other law enforcement agencies. The failure to interrupt the flow of drug profits across the border is a failure not just of Customs, but of DEA, FBI, FinCen and others.

The Customs Service often is successful. Recent press reports indicate that in recent weeks the Service seized $15 million dollars in Miami from would-be cash smugglers. However, this $15 million seizure is more than three times the amount seized last year along the whole southwest border, ground zero in the money laundering war.

Another aspect of the problem is that once illicit proceeds are taken out of the U.S. and deposited in the financial system via Mexican banks, substantial amounts are often transferred back into the legitimate U.S. banking system. What is particularly disturbing is that we are now seeing drug traffickers using their dirty money to buy vast amounts of land and businesses as far as 50 or 60 miles on each side of the border itself, creating what is in effect almost a free-trade zone for drug trafficking -- a free-trade zone that they alone control.

The use of foreign bank drafts facilitates the transfer of the funds back to the U.S. after they have been laundered in Mexico. Such drafts are a well-known loophole in U.S. anti-money laundering laws. While banks are required to comply with the CTR regulations, foreign bank drafts -- essentially cashier's checks -- need not be reported either on entry into the country or when deposited in U.S. institutions.

The Financial Crimes Enforcement Network (FinCen) was charged in 1994 with the job of plugging that loophole, but has yet to issue draft regulations. That effort is long, long overdue.

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To have any success in our war against the cartels, there must be a concerted effort between federal and local officials. Unfortunately, there appears to be the usual friction and lack of coordination between and among the half-dozen federal law-enforcement agencies and the various state and local police forces along the Southwest border. This will only be overcome with leadership.

No one claims that this is an easy job or that there ever was a time when we have defeated the drug cartels. Criminals have successfully laundered drug profits for decades. Congress has now provided the weapons to law enforcement; it is up to law enforcement to use those weapons wisely and aggressively to attack the money-laundering techniques currently being used by the cartels. If currency smuggling across the border is the avenue of choice, we must take on the challenge.

Finally, for law enforcement to be successful, it must have direction and leadership. The war against drugs starts with leadership and support from the top of the Administration.

Today, we will hear from two panels. On the first panel will be U.S. Customs Commissioner George Weise; Stan Morris, director of the Treasury Department's Financial Crimes Enforcement Network; Thomas Constantine, administrator of the U.S. Drug Enforcement Administration; and Jonathan Wiener, State Department Deputy Assistant Secretary for International Crime and Narcotics.

The second panel will outline the extent of the drug- and money-laundering problem on the Southwest border and current U.S. enforcement efforts. On this panel will be Christopher Whalen, an expert on Mexican politics and banking; former Senate investigator Jack Blum, a respected expert on money laundering; and James Dutton, the California supervisory deputy attorney

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general and an expert on crime, money laundering and drug smuggling on the Southwest border.

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Statement

of

Stanley E. Morris

Director

Financial Crimes Enforcement Network

(FinCEN)

before

the

General Oversight and Investigations Subcommittee

of the

House Committee on Banking and Financial Services

September 5, 1996

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Mr. Chairman and Members of the Subcommittee, thank you for providing the Financial Crimes Enforcement Network (FinCEN) with the opportunity to discuss U.S. law enforcement's response to the problems associated with drug-related money laundering stemming from Mexico. The topic is timely. The problem is real and solutions are being found through the combined knowledge and experience of all of us who share a common objective--depriving drug dealers of huge, illegal profits realized at the expense of our nation's citizens. As Secretary of the Treasury Robert Rubin noted in recent testimony before the Senate International Narcotics Control Caucus, "criminals try to separate themselves from their illegal operations, but they cannot separate themselves from their illegal profits."

Attacking the drug trade and other organized crime by focusing on the driving force behind such activity--monetary greed--is a strategy which is showing results. Effective regulation, detection and enforcement in this country over the past ten years have made it more difficult to launder money in the U.S. As a consequence, criminals have been forced to move south of the border increasing money laundering in countries such as Mexico which had not, until very recently, made adequate efforts to adopt anti-money laundering policies.

U.S. anti-money laundering policies have had the further effect of raising the cost of money laundering to criminals from approximately 5 percent of their operating expenses in the mid-1980's to more than 20 percent today. Clearly these figures are indications that we are going in the right direction especially when one considers that money laundering was not even criminalized in the U.S. until a decade ago. Our policies and regulations to detect, prevent and enforce financial crime continue to evolve as law enforcement and, unfortunately, criminals gain more experience. Headway is being made because we in government, together

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with leaders in the U.S. financial services industry, recognize the corrosive, insidious effect money laundering can have on the integrity of a nation's economic structure. The increases in time, money and resources which the Department of the Treasury has devoted to combating financial crime over the past decade reflect how seriously our government takes this threat.

Mexico is a high profile example of the fact that the borderless nature of money laundering requires similar commitments from our neighbors to the south and indeed around the globe before drug trafficking and other organized criminal activity can be effectively countered. Before I discuss what FinCEN is doing in concert with other U.S. agencies to address the problems associated with Mexico's drug-related money laundering, let me briefly describe FinCEN's mission.

As its name implies, FinCEN is a network, a link between the law enforcement, financial, and regulatory communities. It brings together government agencies and the private sector to identify ways to prevent and detect financial crime. FinCEN's unique staffing emphasizes its network approach. In addition to its permanent workforce of about 200, approximately 40 individuals from 21 different regulatory and law enforcement agencies are assigned as long-term detailees.

FinCEN serves as a network in several ways. First, it provides analytical case support, through use of state-of-the-art technology and intelligence analyses to many federal agencies, including the U.S. Customs Service and the Drug Enforcement Administration, but also the Secret Service, IRS's Criminal Investigations Division, the FBI, and others. FinCEN is also a regulator, responsible for administering the Bank Secrecy Act which is a key component of Treasury's efforts to fight money laundering. And finally, in response to the growing

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international dimensions of money laundering, it promotes global efforts to build effective money laundering policies and cooperation in other nations.

The Department of the Treasury places strong emphasis on the need for such interagency cooperation and bridge-building at home and abroad. FinCEN works bilaterally and multilaterally to carry out this objective--a strategy which serves to broaden and strengthen its network. Treasury's effort to address problems associated with the southwest border and Mexico involves both the interagency process and initiatives to forge cooperative alliances in this hemisphere and throughout the world.

The Southwest border was, for example, first identified by FinCEN in 1992 as an area with specific and unique money laundering problems requiring a coordinated response by law enforcement, regulators and financial services representatives. FinCEN has since hosted three Southwest border conferences which have served to foster cross discipline dialogue. Representatives from the U.S. law enforcement, regulatory and the financial services communities as well as officials from the Mexican government exchanged views and experiences in dealing with money laundering along the southwest border.

As trouble spots such as the southwest border are identified, FinCEN strives to use its data bases and technology creatively in order to provide law enforcement with useful analyses and information about financial activity relating to the area in question. In the case of the southwest border, FinCEN's recently instituted suspicious activity reporting system, or SARS, is providing FinCEN's analysts with the ability to obtain a more comprehensive look at the border region. The SAR System merged and revolutionized six older, paper-based reporting systems which had been in place for more than a decade. The activity reported under SARS

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can include bank fraud, misdeeds by bank officials, tax fraud, check kiting, credit card fraud, embezzlement and money laundering.

In the five months since the SAR System has been operational, FinCEN analysts have made use of the data in a threat assessment of the Miami area which is currently underway. We intend to conduct a similar assessment of the southwest border in the near future.

We are also identifying ways that these suspicious reports can be used to assist us in taking new approaches to old problems. For example, a money laundering scheme associated with foreign bank drafts and Mexico was identified by FinCEN and Customs about five years ago. These instruments are used by money launderers to easily and quickly recycle narcotics proceeds back into the United States financial system. FinCEN sought the authority in 1994 to require reporting of cross border transportation of those instruments under the Report of International Transportation of Currency or Monetary Instruments commonly referred to as CMIR rules. We worked for several months on drafting a notice of proposed rulemaking, but as we learned more about the issue and refined other regulations governing financial reporting requirements, it became clear that the approach we were taking with the rule did not really go to the root of the problem--tracking funds in the U.S.

Why? When the problem was first addressed, there was no SAR System in place. The most logical tool at our disposal at the time was consideration of a blanket reporting requirement--an approach which we thought could be too sweeping and difficult to monitor effectively. I might also note that our trading partners in Mexico and Canada expressed fears that the new authority could be used to contravene legitimate commerce.

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Now that the SAR System is operational, we believe it can be used in appropriate ways to target suspicious uses of bank drafts when they are negotiated and provide us valuable data to track down suspicious movement of funds from Mexico back into the U.S. We are also exploring ways that cross border monitoring and reporting could be changed to minimize this avenue of money laundering.

Treasury's increasing experience in tackling drug trafficking by choking off its lifeblood--illegal profits--has also resulted in the recent reactivation of an U.S. interagency group, the International Financial Coordination Group or ICG. The ICG includes the Internal Revenue Service, U.S Customs Service, the Drug Enforcement Administration, the Federal Bureau of Investigation, the United States Postal Service and will target Mexican, Colombian and Panamanian money launderers. This group will be utilizing FinCEN facilities, including its databases and analysts to consolidate intelligence and make more efficient use of limited government resources.

Because solutions to border vulnerabilities lie to a significant degree in the establishment of cooperative ties with Mexico, Treasury is also coordinating an interagency, bilateral effort which includes the Departments of State, Justice and the Office of National Drug Control Policy (ONDCP), to provide Mexico assistance in establishing a more effective anti-money laundering regime. Interagency experts are working with their Mexican counterparts to provide advice regarding new legislation and implementing regulations; improving auditing procedures and providing legal as well as technical training. In conjunction with this initiative, FinCEN sent a team of regulatory and technical experts to Mexico in June, 1996. Then in July, FinCEN was part of a Treasury-led interagency team

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which traveled to Mexico to ascertain a realistic schedule for the implementation of anti-money laundering programs and to make recommendations for additional measures the Government of Mexico can take to enhance its anti-money laundering capabilities. These include a mandatory suspicious reporting system by Mexican financial institutions and creation of a financial intelligence unit or FIU. FIUs take many forms--one model is FinCEN. We are designing a database for the Mexican FIU and will follow-up with customized financial intelligence training. These actions are beginning to show results and are reflective of the progress which can be achieved when agencies and countries work together.

With respect to the status of Mexico's anti-money laundering legislation, as you may be aware, the Mexican legislature took the important step in May of this year of passing the Penal Reform Bill which criminalizes money laundering. At the end of August, Mexico completed a draft of a mandatory Suspicious Transaction Reporting regulation. These are very positive actions.

Although this progress is an encouraging sign that many in the Mexican government genuinely want to work cooperatively to address their money laundering problem, [Mexico must do more to implement a meaningful, comprehensive anti-money laundering program.]

For example, Mexico's recent progress in passing the legislation needed to establish the legal and regulatory framework to prevent money laundering will require continuing efforts to urge the swift passage of such laws and regulations. Further, the United States is concerned about Mexico's conflicting position with respect to membership in the Caribbean Financial Action Task Force or CFATF which I will discuss in a few moments.

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FinCEN was also disappointed to learn that the Mexican Congress did not act on the Organized Crime Legislation pending before their extraordinary session of Congress which was held this summer. That legislation, if enacted, would provide law enforcement with additional authorities designed to assist in the identification and prosecution of money launderers. Since the Mexican Congress resumed September 1st, we have been advised that the legislation is at the top of their agenda and we will continue to urge its passage.

On the subject of Mexico's membership in the CFATF, FinCEN is frankly somewhat puzzled. CFATF is a regional affiliate of the G-7 Financial Action Task Force on Money Laundering (FATF), the leading international organization dedicated to promoting the adoption of anti-money laundering policies. CFATF is in the process of obtaining concrete commitments from its members as to the terms of their membership.

A cornerstone of the FATF and CFATF approach is to encourage compliance with an agreed-upon series of anti-money laundering recommendations through a process known as Mutual Evaluations. Mutual Evaluations require countries to submit to a review of their progress in implementing FATF recommendations by a team of experts from other nations. Mexico is currently objecting to such a commitment on the grounds that it violates national sovereignty. As such, Mexico has asked to be admitted to CFATF merely as an observer even though Mexico is also seeking FATF membership which as I indicated, also requires its members to undergo Mutual Evaluations.

It should be noted that Mexico and Colombia are the only two CFATF prospective members taking this position. In addition to the United States, other FATF and CFATF members such as Britain, France, Costa Rica, and Panama, to name a few, have all willingly

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agreed and submitted to such evaluations--a step none of these governments would have taken were sovereignty a real concern.

The CFATF is holding a ministerial level meeting on October 9 and 10, 1996, and FinCEN will continue to urge the Mexican government to reconsider its hesitancy to undertake anti-money laundering obligations required for full membership in CFATF--a position which is surprisingly inconsistent with the promising legislative and regulatory steps already being taken by the Mexican government.

In spite of these conflicts, there are other positive signs in the private sector as well that attitudes are changing. Treasury has been encouraging the Mexican government to integrate its financial institutions into an anti-money laundering strategy. The U.S. has an excellent model to showcase as an example. We have learned from experience that the financial services sector is a critical component in a country's policy to prevent and detect money laundering. Treasury has energetically cultivated a strong working relationship with the U.S. banking industry. U.S. banks and other financial institutions are active and invaluable partners in the U.S. fight to stem financial crime. The Bank Secrecy Act Advisory Group (BSAAG) which is comprised of representatives from government and industry has made a significant contribution to Treasury's efforts to institute and implement laws, regulations, and guidelines which meet law enforcement needs without imposing an undue burden on private industry. The evolution of an effective anti-money laundering program includes a "Know Your Customer" concept--a concept which goes well beyond routine reporting of crimes by financial institutions. As the first line of defense, banks are now

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providing law enforcement with information about suspicious financial activity for which there is no reasonable explanation.

Treasury's success in forming effective partnerships with our own financial institutions enables us to be more persuasive in urging Mexico to try a similar approach. In fact, the Mexican Banker's Association has established a special subcommittee comprised of a coalition of private and government experts to discuss ways in which Mexican financial institutions can voluntarily institute anti-money laundering controls. FinCEN has also become aware that other South American banking associations have expressed an interest in learning more about the U.S. experience and in obtaining assistance in working with their members' banks.

Better recognition by the public and private sector of the threat of money laundering cannot be stressed enough. The battle against financial crime, drug-related or otherwise, will not be won until such crime is seen by governments and industry alike for what it is--a corrupting force which can undermine the foundation of a nation's economic stability. President Clinton stated in his address to the United Nations in October, 1995 and elsewhere that "Nowhere is cooperation more vital than in fighting the increasingly interconnected groups that traffic in terror, organized crime, drug smuggling, and the spread of weapons of mass destruction...We must not allow them [criminal enterprises] to wash the blood off profits from the sale of drugs...or organized crime...Nations should bring their banks and financial systems into conformity with the International Anti-Money Laundering Standards."

As organizations such as FATF gain more prominence, and as bilateral initiatives take hold, governments and financial institutions which do not cooperate in implementing effective

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anti-money laundering policies are coming under increasing scrutiny from the international finance and trading communities.

As a means of underscoring this concern, the World Bank, the International Monetary Fund and other international development lending institutions are paying increasing attention to ensuring that countries are not susceptible to money laundering and organized crime. Preventative measures should be established by those helping to build strong economies in the developing world. Secretary Rubin advocates and fully supports this approach.

Other Treasury efforts in the multilateral arena which involve Mexico include the Summit of the Americas (SOA)--a process which President Clinton began in 1994 to develop a coordinated hemispheric response to money laundering.

In December of 1995, Secretary Rubin took the process a step further and chaired a ministerial conference in Buenos Aires attended by 29 of the original Summit of the Americas participating nations. A Communiqué was adopted in Buenos Aires in which ministers committed their respective governments to take a series of actions to combat money laundering. These actions include the completion of ongoing assessments to determine each country's progress in implementing the Communiqué's anti-money laundering measures. An Inter-American Drug Abuse Control Commission experts group working in conjunction with the Organization of American States (OAS/CICAD), has been tasked with developing a framework for implementation reviews.

An additional outcome of the SOA Ministerial is the establishment of a fund through the Inter-American Development Bank (IDB) to finance a comprehensive training and technical assistance program to support nations in their implementation of commitments to the Buenos

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Aires Communiqué. The Departments of State, Justice and Treasury are actively involved in efforts throughout the region and FinCEN is providing training and technical assistance to several participating countries which have expressed an interest in establishing a financial intelligence unit or FIU. FinCEN is also working through an organization known as the Egmont Group to promote information exchange and coordination between existing FIUs throughout the world.

In conclusion, Mr. Chairman, all of us agree that money laundering should be approached through many directions. At the domestic level a coordinated, interagency response is essential. The transnational nature of money laundering and drug trafficking require the application of this interagency effort to the task of developing strong bilateral and multilateral links with governments around the globe.

Treasury is committed to this effort. Our goal is to promote the adoption of effective anti-money laundering standards worldwide by encouraging and when circumstances warrant, applying international political pressure on governments and financial institutions to cooperate with law enforcement. We are encouraged to see that the international financial services community itself is recognizing the importance of maintaining sound financial controls to prevent the corruption of their institutions. Central banks, finance and justice ministries as well as multilateral development banks from all parts of the globe are looking to the United States for guidance and leadership in establishing anti-money laundering programs--an indication that our message is gaining "currency". While much more needs to be done, progress is being made and will continue to be made through a cooperative, global approach.

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Testimony by

Donnie Marshall

Chief of Domestic Operations
Drug Enforcement Administration
United States Department of Justice

before the

Subcommittee on General Oversight and Investigations
Committee on Banking and Financial Services

regarding

U.S. Law Enforcement Response to Money Laundering Activities in Mexico

Rayburn House Office Building
Room 2128
Washington, D.C.
September 5, 1996

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Testimony of Donnie Marshall
Chief of Domestic Operations
for the
Drug Enforcement Administration
before the Subcommittee on General Oversight
and Investigations of the Committee on Banking
and Financial Services
September 5, 1996

Mr. Chairman and Members of the Subcommittee: It is a pleasure to appear before the Subcommittee today to discuss the U.S. law enforcement response to current money laundering activities associated with the importation of illegal drugs into the United States via Mexico.

The Southwest border has become the focal point of drug trafficking into the United States. In fact, the majority of the cocaine in the United States is smuggled across our border with Mexico. This 2,000 mile stretch of land along our Southern boundaries provides many opportunities for criminals to smuggle cocaine, methamphetamine, and marijuana into the United States. The organized drug traffickers from Mexico, operating along the U.S. and Mexican border, are becoming more brazen and more violent, threatening and intimidating American ranchers, terrorizing local communities, and encroaching on American soil.

Much of the land along the border is desolate and sparsely populated, which creates a formidable challenge for law enforcement in every state sharing the border with Mexico. Murders, crime and violence have become a reality in most communities in the Southwest United States, and many of these crimes are drug related.

During the last five years, the Cali Cartel--the most sophisticated organized criminal enterprise in history-- has shifted their major drug smuggling operations from the Caribbean corridor, which was the epicenter of drug smuggling activities during the 1980's, to Mexico. Drug traffickers in Mexico have had a long history of polydrug smuggling, and their well-entrenched trafficking routes provided a ready alternative for the Colombian drug lords who were seeking safer avenues into the United States. The leaders of the Cali Cartel first employed transporters from Mexico to ship cocaine into the United States, and in so doing, cemented a relationship with their Mexican counterparts.

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Early on, the Mexican transportation groups were paid $1,000 to $2,000 dollars per kilogram for their services. They received the cocaine in Mexico from a Colombian transportation group, smuggled it into the United States, and turned it over to a Colombian distribution cell. More recently, the Mexican traffickers have received cocaine instead of cash as payment for services rendered. Receiving up to half of every shipment of cocaine they transported, the Mexican traffickers increased their profit margin significantly.

The introduction of cocaine into the United States is now primarily controlled by organized criminal groups in Mexico. Through their alliance with the Colombian traffickers, 60 - 70 percent of the cocaine entering the United States enters through Mexico. Adding to the wealth being accumulated by the Mexican gangs is their dominance of the methamphetamine market. Mexican traffickers have replaced U.S.- based outlaw motorcycle gangs as the predominant force in methamphetamine production and trafficking. In 1995, methamphetamine seizures along the United States - Mexico border rose from 6.5 kilograms in 1992 to 665 kilograms. Due to lack of chemical controls in Mexico, traffickers have been able to obtain enormous amounts of ephedrine, an essential ingredient in methamphetamine production. In an 18-month period between June 1993 and December 1994, approximately 170 metric tons of ephedrine were diverted from the international commercial trade to Mexico.

Mexico remains the number one foreign source for marijuana in this country, accounting for 50 percent of the marijuana supply in the United States. In addition, Mexican heroin is the most prevalent form of heroin available in the western United States and accounts for 5 percent of the heroin sold in this country. These factors have generated a tremendous amount of wealth that the Mexican trafficking organizations have to launder.

The Mexican Federation

There are four major criminal groups from Mexico under the umbrella of the Mexican Federation which control the vast majority of the heroin and cocaine trade in Mexico. A fifth criminal group, headed by the Amezcua brothers, is responsible

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for virtually all of the methamphetamine imported into the United States from Mexico.

The Tijuana organization is headed by the Arellano Felix brothers--Benjamin, Francisco, and Ramon. It is headquartered in Tijuana, Baja California Norte. This group controls smuggling across the border to California and is among the most violent of the Mexican organizations.

The Sonora Cartel is run by Miguel Caro Quintero. This group operates out of Hermosillo, Agua Prieta, Guadalajara and Culiacan, as well as the Mexican states of San Luis Potosi, Sinaloa, and Sonora. Rafael Caro Quintero, Miguel's brother, is in jail for his role in the murder of DEA Special Agent Enrique Camarena in 1985.

The Juarez Cartel is headed by Amado Carillo Fuentes, currently the most powerful figure in the Mexican drug trade. His organization is linked to the Rodriguez Orejuela organization in Cali and has family ties to the Ochoa brothers in Medellin, Colombia, as well. For many years, this organization ran transportation services for the Cali Cartel and used aircraft, including 727's, to fly drugs from Colombia to Mexico.

The Gulf Group was headed by Juan Garcia Abrego until his arrest on January 14, 1996, as one of the FBI's Ten Most Wanted Fugitives. After his arrest, Mexican authorities worked quickly to expel Abrego to the United States. He awaits trial in U.S. District Court in Houston on charges including conspiracy to import cocaine, the management of a continuing criminal enterprise and money laundering offenses. The Gulf Group is based in Matamoras, Tamualipas State. This organization has smuggled well over 30 tons of cocaine into the United States and has distributed it as far north as Michigan, New Jersey, and New York.

The Amezcua brothers are responsible for huge quantities of methamphetamine smuggled into the United States from Mexico. There is an enormous demand for methamphetamine in the United States and the abuse problem is reaching epidemic proportions. Methamphetamine deaths have risen dramatically in cities such as Phoenix, Los Angeles and San Diego. In Phoenix, deaths attributable to methamphetamine abuse rose 510 percent between 1992 and 1994. The dramatic increase in demand for methamphetamine has garnered even more profits for drug syndicates in Mexico.

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A Money Laundering Assessment

As with any other illegal venture, the driving force behind drug trafficking is the profits that it allows the trafficker to enjoy. Drug trafficking is a multi-billion dollar business, and these organizations are fueled by huge profits. Without the profits, they cannot finance the manufacturing, transportation, smuggling, distribution, murder and intimidation that are essential to the drug trade. With the tremendous profit comes an absolute necessity for the trafficker to launder his funds.

In order to operate their organizations and maintain their power, the traffickers must return the cash proceeds from their drug sales to areas where the proceeds are easily accessible, make the proceeds appear to be legitimate income, and protect this money from discovery and seizure by law enforcement.

Due to geographical considerations, Colombian traffickers face many difficulties and vulnerabilities during the initial placement phase of the money laundering process that Mexican syndicates do not face. Colombian drug organizations have in the past relied on a multi-faceted collection process, amassing currency in strategic locations and using a variety of methods to introduce the cash into the U.S. banking system and then ultimately transferring it to Colombia. Much of this is due to the organizational structure which separates the drugs from the drug proceeds into different cells, thus compartmentalizing the organization to insulate it from threats by rival traffickers and law enforcement. Currently, the vast majority of outbound currency attributable to the Colombian drug lords, leaves the United States either through air cargo or outbound freighter. This makes their operations less complicated, as well as less vulnerable, to discovery by law enforcement due to the enormous amount of commercial trade the United States has with Colombia.

Several joint DEA, USCS, IRS, and FBI undercover money laundering investigations, responsible for the infiltration and dismantling of Colombian money laundering organizations, have made significant seizures of bulk currency shipments.

The Mexican Federation drug groups do not experience these same logistical dilemmas in returning their profits to Mexico. Due to the vast land border separating the United States from Mexico, Mexican traffickers sometimes simply

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smuggle bulk shipments of cash across the border in vehicles. Often, the same vehicles which are used to smuggle cocaine into the United States are used to transport currency back into Mexico. During the months of April, May, and October, 1995, Mexican authorities made three seizures of outbound U.S. currency which totaled nearly $20 million.

A preliminary analysis of all transactions between the San Antonio Federal Reserve and area depository institutions show a currency surplus of $2.96 billion dollars in 1995, up nearly $900 million from the surplus measured in 1994. In order to satisfy a growing economic demand for cash, Federal Reserve Banks often disperse more cash to depository institutions than they receive in deposits. Thus, Federal Reserve Banks with unexplained cash surpluses are considered worthy of closer scrutiny. Mexico returns more surplus currency to the United States than any other country. Millions of dollars are being laundered by these Mexican trafficking organizations.

The OCDETF investigation known as Zorro II, which was conducted as part of our Southwest Border Strategy, clearly documented the methodology used by the Mexican syndicates to return their narco-dollars to Mexico. This investigation targeted, in part, a Mexican transportation group that was smuggling cocaine into the Los Angeles area for the Colombians. The Colombians paid the Mexicans for their services with cocaine. This is the first time law enforcement has simultaneously dismantled both the United States infrastructure of a Colombian organization responsible for the production of cocaine and the Mexican organization responsible for the transportation of cocaine.

This investigation clearly showed the Mexican and the Colombian traffickers working side-by-side in the wholesale distribution of cocaine throughout the United States. During the course of this multi-agency case, more than 90 court-ordered wiretaps were monitored, and the investigation resulted in the arrests of 156 people, the seizure of approximately 5,600 kilograms of cocaine and over $17 million dollars U.S. currency. The majority of this $17 million dollars was seized as it was being staged, in preparation for shipment to Mexico or from vehicles as they were in route to Mexico.

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Money Laundering Objectives

The primary goal of the money launderer is to legitimize the income which is derived from an illegal source. The successful drug trafficker needs a "front" to explain the source of his income. Service oriented businesses, with a high cash flow, have long been used to successfully funnel drug proceeds, which then are claimed as "legal" profit. Businesses on both sides of the United States and Mexican border are being used to facilitate money laundering by the practice of "over-invoicing " to legitimize drug-related proceeds.

Getting volumes of cash into the U.S. banking system is also a primary goal. We are quickly becoming a "cash-less" society where the majority of our expenses are either paid by check or credit card. To deal exclusively in cash would raise suspicion as to the source of the income. Also, once the cash is moved into the banking system, it can very easily be manipulated throughout the financial infrastructure, to areas all over the world. Mexican authorities recently passed money laundering legislation that awaits implementation.

Another problem for the Mexican trafficker is converting small denominations to larger denominations, primarily to disguise these small bills as street sale currency and to allow for easier bulk transportation of currency into Mexico.

The need to convert U.S. currency derived from the sale of drugs, to source foreign currency is also a problem for the Mexican trafficker. Traffickers need to exchange the profits being returned to them in the denominations that are collected on the streets of the United States, mostly in $5, $10 and $20 bills. Even though the U.S. dollar is the most sought after means of exchange in the world, Mexican traffickers need pesos to make payments and payoffs, in country, to support the workings of the organization.

Finally, the trafficker needs to convert his funds into tangible assets. But in order to do this, he must devise some scheme to launder his proceeds.

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Money Laundering Methods

According to the FinCEN Reference Series, money laundering activities can be divided into three stages: placement, layering, and integration.

In the placement stage, the money launderer disposes of the criminally derived proceeds. The trafficker attempts to: 1) place the funds into the financial system unnoticed, or 2) physically transport the cash outside of the United States. For the Mexican trafficker, this can be accomplished through relatively simple and direct means. Bulk shipment of U.S. currency is one of the most widely used methods. Currency is concealed and transported either by money courier or secreted in outbound cargo. This is done by using air freight forwarders, overland, and commonly in the same vehicles that transported drugs northward into the U.S. Often times, Mexican traffickers use women and children to transport their currency to alleviate suspicion at check points along the border.

The placement stage is where the trafficker and the currency is most vulnerable to detection and seizure. This stage is currently the main focus of law enforcement efforts along the Southwest border. Once the money is smuggled across the border, Mexican traffickers can place it in Mexican financial institutions with relative ease.

Once the funds reach a financial institution, the second stage of the laundering activity, layering, begins. Through layering, the money launderer further insulates the illicit proceeds from its illegal source. This occurs by conducting a series of financial transactions, that in their frequency, complexity, and volume, often resemble legitimate financial activity. The ultimate goal of this phase is to make tracing the funds back to its "dirty" source virtually impossible.

Lastly, the integration stage is where the launderer "integrates" the illicit funds into the economy. Once this occurs, the trafficker has laundered his money. Now he is able to increase his wealth and power by purchasing land, businesses, luxury items, and making payoffs to corrupt law enforcement and political officials that facilitated his illegal activities.

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Money Laundering in Mexico

As drug organizations in Mexico become more powerful in the international drug trade, so does their demand for and influence in the money laundering circles. The proximity of Mexico to the United States readily allows for the movement of drug profits through bulk shipments back to the drug syndicates in Mexico with relatively little risk. DEA has found through years of money laundering investigations that traffickers are most vulnerable prior to the funds reaching the banking system, and then again, when they reach the concealment stage. Without human intelligence to identify couriers, and with minimal outbound search at the border, there is little chance of discovery of bulk shipments.

Once the currency is delivered to Mexico, a variety of alternatives for laundering are available to the drug syndicates. The Casa de Cambio system (money exchange house) is readily available for the exchange of dollars to pesos. The Casas also function as a parallel banking system in Mexico, which in addition to currency exchange, has the capability of wire transferring funds into the worldwide banking system.

Casas de Cambio

The exchange of dollars for pesos is frequently used as a money exchange mechanism in many Latin American countries. This method of exchange has become an accepted, and often vital, business transaction. Due to the laws which regulate the holding, exchange, and transportation of foreign currencies, many Latin American economies have established the Casa de Cambio.

These exchange houses serve as an alternative to the official banking system in many countries. They provide currency conversion, exchanges and money movement services for a fee. Mexican immigrants have traditionally used this system to send American earned dollars back to Mexico to support their families. The services of the cambios are sought by legitimate businesses as well as the narco-trafficker. In Texas alone, 75 money exchange houses have been licensed by the state banking commissioner. Additionally, California has licensed 35 such exchanges. A dramatic rise in Casas de Cambio has been brought about by the

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huge demand for conversion of U.S. dollars into pesos derived from drug trafficking.

This growth can easily be seen in the number of Cambios which operate along the United States and Mexican border. When much of the cocaine entered the U.S. through Caribbean routes, relatively few Cambios were in operation along the Southwest border. At that time, the Cambios serviced migrant workers who sought a familiar means of exchanging their U.S. earned dollars for pesos. Today, Cambios along the border in the Southwest United States are a significant factor in the laundering of drug proceeds where Mexican traffickers intermingle cash derived from drug sales with legitimate exchange business.

Large scale criminal organizations have developed systems such as this to launder large amounts of currency throughout the world. As long as there is someone in one location with excess cash, and another person needing it, there will always be someone in the middle to broker the deal for a profit.

Just as in the United States, Mexico has no reporting requirements for wire transfers, regardless of the amount. The net result is, that once the drug proceeds are deposited into either the Mexican banking system or a Casa de Cambio and the wire transfer process begins, the funds are nearly impossible to track.

The sophistication of the modern banking system allows for the transfer of funds around the world in literally seconds, which these groups capitalize on by setting up conduit accounts around the world. Once these funds are transferred through multiple conduit accounts and front companies, they have effectively been laundered and the process of tracing them and proving their illegitimacy is extremely difficult.

Mexican Bank Drafts

Many money launderers have found the Mexican Bank Draft to be the instrument of choice for repatriating dollars to the United States as legitimate income for a variety of reasons. Each year, over 500,000 bank drafts drawn on Mexican banks enter the U.S. One bank in Arizona determined that the average Mexican bank draft was valued at $65,000, however, it was not unusual to regularly

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clear drafts in excess of $200,000 to $400,000. In Mexico, when a large amount of U.S. currency is deposited, no currency transaction report is required. The bank in turn issues a bank draft which is drawn on an account with a U.S. bank that is held by the Mexican bank.

Through a loophole in the U.S. money laundering statutes, Mexican bank drafts are not considered to be negotiable instruments. Therefore, it is not necessary to file a Currency and Monetary Instruments Report (CMIR) or a Currency Transaction Report (CTR) when the bank draft is deposited into a U.S. bank. Traditionally, banks operating in the United States have been responsible for notifying law enforcement when suspicious activity was occurring in a financial institution. However, if the transaction goes unreported, and most drug profits are not reported, the laundering process is complete and the origin of the funds is concealed. The United States Congress passed The U.S. Money Laundering Suppression Act of 1994, requiring that foreign bank drafts be reported on CMIR forms. However, implementation regulations have not yet been issued.

Mexico's Response

The Mexican banking sector easily and conveniently absorbs the cash from traffickers who have established commercial fronts throughout Mexico. There are no CTR requirements in Mexico. Therefore, monitoring and reporting suspicious transactions is virtually nonexistent. Although illicit enrichment is illegal and money laundering is a criminal offense in Mexico, money laundering is widespread.

During May 1996, the Government of Mexico made significant changes in its current anti-money laundering legislation. Mexico criminalized money laundering in a two-part package. The Penal Reform Code made money laundering illegal with enhanced penalties of imprisonment for 5-12 years for violation of the statute. The second part of the legislation, The Organized Crime Bill, would authorize wire taps, undercover operations, the use of informants, a witness protection program, and other investigative tools. Passage of this portion of the overall legislation was scheduled for review this summer, although we have been advised that it was not passed and will again be on the agenda for the fall session which resumes in September.

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Current Mexican legislation lacks a Currency Transaction Reporting (CTR) requirement, which has increasingly become problematic for Mexican and United States law enforcement authorities. Opposition to a CTR provision comes from the banking community as well as from close-knit family groups who have controlled the majority of business in Mexico for many years.

During July of this year, a U.S. Government team met with officials in Mexico. Officials from the various agencies that oversee the Mexican banking industry are in favor of regulations requiring the reporting of suspicious transactions and have indicated that they expect the regulations to be drafted by late summer or early fall and enactment is expected by December of this year.

One issue that arose during these meetings is that there are currently no sanctions against financial institutions who fail to report suspicious transactions. To be truly effective and to adequately address the problem with the Mexican Federation, who are taking advantage of the financial system, it will be necessary for the Government of Mexico to establish sanctions for non-reporting of suspicious transactions and mandate a Currency Transaction Reporting requirement. This will allow law enforcement authorities in Mexico to attack these groups while their profits are still vulnerable.

Conclusion

For close to 30 years, Mexican trafficking organizations have been adaptable, persistent, and savvy in the ways they have met drug market dynamics. The Mexican trafficking groups are becoming as powerful and insidious as their Colombian counterparts. The Government of Mexico needs to be vigilant and maintain relentless law enforcement pressure against these major trafficking organizations. Unless tough law enforcement measures are in place to arrest and imprison major traffickers, seize their assets, and halt money laundering, Mexico will continue to face threats posed by international drug organizations.

Our Southwest Border initiative, which integrates Mexican forces with Federal, state and local law enforcement agencies from the United States, is moving forward to target the activities of major drug traffickers operating along the United States and Mexican border. This commitment of manpower and resources will be

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DEA's top priority for the next 5 years, as we work with our Mexican counterparts to dismantle the trafficking organizations responsible for much of the crime and violence plaguing our country today.

The leaders and members of the five major trafficking groups in Mexico must be arrested, jailed in secure prisons, and prohibited from continuing their enterprises from within prison walls.

I thank you Mr. Chairman, and the Subcommittee for inviting me to appear before you today, and I will be happy to answer any questions that you might have.

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Testimony of

Jack A. Blum, Esq.

Before the
House Banking and Financial Services Committee
General Oversight & Investigations Subcommittee

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My name is Jack Blum. I am a partner in the Washington, D.C. law firm of Lobel, Novins & Lamont and a former special counsel to the Senate Foreign Relations Committee. For the past ten years I have been working on the issues of money laundering, offshore tax havens, drug trafficking and international organized crime.

Last year at this time I spent a week in Mexico speaking on the subject of money laundering under U.S.I.A. sponsorship. I met with Mexican bankers, businessmen, government officials and law enforcement officers in Juarez, Monterrey, Guadalajara and Mexico City. Since that time I have been following events relating to money laundering in Mexico closely. Mexico has become one of the most important centers for the placement of criminal money from the United States — especially drug money — in the international banking system. The problem is obvious but the solution is not. To understand why, it is important to put the issue in the context of overall U.S. Mexican relations.

In my opinion, Mexico presents America's most serious and most difficult national security concern. Despite proclamations of recovery and growth by President Zedillo, Mexico is facing extraordinarily serious economic problems. Mexico has never really recovered from the disaster of the 48% devaluation and 50% inflation in the first year of the Zedillo presidency. The income gap between rich and poor has become one of the most extreme in the world. There is also an enormous income disparity between the north and south of Mexico. Millions of small farmers have been hit hard by NAFTA related dislocations. Thousands of small businesses have been hit hard by the arrival of foreign competition.

Mexico has a law enforcement system which is utterly corrupt. Police pay to get their jobs and once on the job they pay for the beats which produce the most bribes. Much of the Mexican government suffers from the same level of corruption. In a commendable effort to challenge the status quo President the Zedillo appointed Lozano Gracia, a member of the opposition PAN party, as Attorney General. But even Lozano Gracia has been unable to change the entrenched corruption among the police. The Zedillo administration is working on the difficult problem of displacing and old guard and changing the present authoritarian centralized government into a democracy. On top of all this and in part because of it, Mexico is facing multiple armed insurgencies. While the insurgents do not threaten a takeover, they have the capacity to further destabilize an already shaky situation.

Over the last few years, Mexico has become the largest single supplier of narcotics to the United States. Law enforcement officials estimate that seventy per cent of the illegal drugs used here come from Mexico. The list of drugs which Mexico supplies includes marijuana, cocaine, heroin and methamphetamine. Mexico is also the destination for somewhere between six and eight billion dollars of drug money which traffickers need to launder.

If Mexico were on the other side of the globe we might choose to ignore its problems, but we share a long common border. What happens in Mexico has a direct effect on us. Problems in Mexico are problems for the United States. Apart from its role as our drug dealer, we are married to Mexico in many ways. Our economies are linked through NAFTA,

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and through legitimate trade. Mexicans buy two thirds of their imports from us and sells us two thirds of their legal exports. Our families are related and intermarried. We go there in vacation more often than we do to any foreign country and they come here more often than anywhere else. Everyone knows about the Alamo and the fact that Texas was part of Mexico. But, we tend to forget that until 1846 the territory that now includes Arizona, California, Colorado, New Mexico, Utah and Wyoming was part of Mexico. Given this relationship divorce is neither possible nor desirable.

The history of our dealings with Mexico vastly complicates our ability to influence the current situation. For the first century of our relationship the Untied States used force and the threat of armed intervention as its way of dealing with Mexico. Texas gained its independence through war, Mexico lost its other northern territory because of U.S. military action, the U.S. supported the Reform faction in the Mexican civil war in 1858 and the U.S. intervened militarily in 1911 to put down the rebellions of Pancho Villa and Emiliano Zapata. The Mexicans struggled with our oil companies, and to this day the date the Mexican government nationalized them is a national holiday. Needless to say Mexicans remember all this and become quite testy when the United States openly tries to tell them what to do.

Mexico takes a dim view of American police who try to operate on their territory. Mexico will not allow the extradition of its citizens to the United States. Mexico begins any discussion of these issues with strong reminders that how Mexico runs its affairs is the business of Mexicans, not Americans. When you try to persuade a Mexican to do something you almost have to explain why it is in Mexico's interest. Arguing that it will help the United States will not work.

While being prickly and testy at one level, since world war one Mexico has cooperated with the United States against external threats. It refused to supply raw material to the Axis and it declared war on Germany and Japan. During the cold war, despite its neutralist third world rhetoric, it cooperated with U.S. intelligence services in tracking Cuban and Russian diplomats who tried to use Mexico as a base for recruiting Americans. It helped the United States in combating insurgencies in Latin America and was ruthless in eliminating its own far left. As long as the cold war was America's foreign policy priority our government chose to play down the drug dealing, the corruption, the broken criminal justice system and the inequitable distribution of wealth and income. In short when the CIA and the DEA disagreed on a Mexican issue it was no contest — the CIA always carried the day.

It is instructive to travel from San Antonio, Texas to Monterrey. There is no real border — rather there is a gradual shift from one country to the other and from one culture to the other. The cities of El Paso and Juarez are really a single city. Many people who live in Juarez cross the border several times a day to go to work, to take children to school, to visit relatives and to shop. There is a formal border but it represents an administrative inconvenience. Even with limited inspections there is a forty five minute wait to cross in non-rush hour. The idea that there is a way to stop the flow of illegal people and goods through law enforcement machinery is a political fantasy which has been sold by administrations of

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both parties. Rhetoric about tough border control is a substitute for tackling the very serious and complex underlying issues.

The best we have been able to do is to act tough. On several occasions in the last twenty years we have attempted to use border formalities as a way of gaining leverage against Mexico in the effort to stop the flow of drugs. It hasn't worked. In 1969 then Deputy Attorney General Richard Kleindeinst tried to get the Mexicans to control the marijuana trade on their side of the border. He was received politely and ignored. The American response was Operation Intercept. Starting on September 21, 1969 Customs began to search everything and everyone that crossed the border. Military forces were used to close off the parts of the border that were not regularly patrolled. Commerce along the border came to a halt.

Operation Intercept lasted seventeen days. The political and economic pressures on both sides forced a face saving compromise. The Mexicans agreed to set up a eradication program in exchange for the U.S. ending the operation. In a matter of months the marijuana smugglers were back in business and more profitable than ever. The eradication program the Mexicans put in place was a sham.

In 1985, in response to the murder of DEA agent Kiki Camarena, the then Customs Commissioner, William von Raab, imposed another 'by the book' inspection of everything that crossed the Mexican border. He wanted to pressure Mexico into cooperating with the murder investigation. Once again traffic backed up for miles. Fruit and vegetables rotted because there were no workers to pick them. Businesses on the U.S. side of the border lost their Mexican customers. Within a matter of six days the political pressure was so intense that the White House ordered the operation to stand down. For the second time, pressure on the border produced nothing.

In short our policy options are very limited. Invasion and intervention are not thinkable, border crackdowns and the threat of economic sanctions do not work because they hurt us as much as they hurt Mexico. The only avenues open are persuasion and the offer of assistance in times of crisis conditioned on Mexico's movement toward reform.

Today, money from the street sale of drugs in the United States and money to pay Mexican suppliers for drugs is pouring across the Mexican border in every imaginable way. Cash is stuffed in car doors, in tankers, disguised as freight and carried as innocent luggage in the trunk of car loaded with people who look like ordinary tourists. In some cases the cash is put in the hands of the many casas de cambio that line the border and converted into money orders for transmission to Mexico. There the drug money is commingled with money from farm workers — legal and illegal — who want to send funds to their families back home.

Bankers in El Paso told me that they routinely faced demands from eighteen and nineteen year old kids to cash cashiers checks for hundreds of thousands of dollars. The bankers said that they are legally required to cash the checks even though they know that the

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money is hot. They told me they file the requisite reports with the treasury but by the time the reports are filed the first nineteen year old is gone and another one has taken his place.

The flow of drug cash is distorting business competition along the border. A Mexican businessman told me he had sold his cement block company for next to nothing because of the drug problem.

"One day the company that supplies the machines we use for making blocks called and told me my competition had just ordered a whole new factory. The machines would make blocks faster and at a lower cost. Did we want to buy the same equipment?

"I laughed. Where would we get the funds to buy a new plant in the middle of a depression which has completely destroyed the housing market? As I asked the question I realized the answer — my competition was financed with drug money. I knew I had to sell."

His story was one of several similar stories I heard all around Mexico.

When I visited Mexico last year I was told that the passage of money laundering legislation was immanent. The Chamber of Deputies was merely putting the finishing touches on the law. Despite what I was told the law took another year to pass. Now there is no real effort to enforce it.

The reason is straightforward. The Mexican banking system needs the flow of drug money to keep its doors open. When the Peso was devalued in 1994 and interest rates climbed to 103% a year virtually every loan in Mexico went into default. Bankers told me that they were forced to foreclose on thousands of homes and cars.

"What do you do with them?," I asked.

"We let the owners continue to live in them as 'caretakers'," was the response. "We are under strict orders not to try to sell them because if we did the market would crash and every bank in Mexico would be insolvent. At least this was we can keep the fiction of having some net worth."

"If your assets aren't worth anything, how do you keep your doors open?" I asked.

"We live on our cash flow," came the response, "and the money laundering enforcement effort you are talking about would not help cash flow."

Further complicating the money laundering enforcement effort in Mexico is the fact that money coming from non-drug political corruption uses the same laundry facilities. Mexico's most famous corrupt political figure, Raul Salinas, now under arrest, laundered $120 million through the Mexico private banking department of Citibank. It appears that Citibank furnished Salinas with the shell corporations and handled the transfers necessary to hide the

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ownership of the funds he received in corporations outside of Mexico. Other banks make similar services available to drug dealers and tax evaders. Structuring an offshore home for concealed untaxed, and possibly illegal, wealth is a major profit center for the Mexican banking industry.

Mr. Salinas is not the only Mexican who wants his money offshore and untraceable. Mexican bankers told me that every large bank in Mexico has offshore subsidiaries in jurisdictions like the Cayman Islands to service the needs of their wealthy clients. They explained that no one of any substance pays income or inheritance taxes. All the wealth goes offshore where it is held by bearer share corporations and corporations with nominee shareholders, nominee officers and nominee directors. The inability of the government to collect taxes is of course central to the Mexican financial crisis. It should be obvious that if Mexico enforces laws against money laundering it is likely to snare very powerful business interests who have used the same system that drug dealers use to hide their money.

The last three Mexican presidential terms have each ended in an orgy of self enrichment by the insiders and their friends. When the old crowd leaves office it moves its money out of the country and hides it in offshore tax havens. The new president then 'discovers' that the country is in a financial crisis which might bring down the economy. At this point the United States organizes a bailout to 'protect the international market'. The script is tiresome and expensive.

It is difficult to talk about Mexican government corruption in polite company. People who do are accused of "Mexico bashing" and Mexican diplomats try to turn the issue around and raise questions about corruption in the United States. But the corruption issue cannot be dodged and must be discussed. Corruption is what allows the drug business to flourish in Mexico. Corruption is at the center of the economic crisis. Corruption is at the center of the political problems of the country.

People who live in Mexico city tell you that if you are robbed not to call the police.

"Why not?", you ask.

"Because you will be robbed twice," comes the reply. In Mexico city an honest cop is one who sticks to the standard bribe for a particular offence and does not try to get more if you are well dressed or driving a fancy car.

Our government has known about the depth of corruption in Mexican law enforcement for years. There is a twenty year history of police involvement in the protection of the drug trade. The Mexican Federal Judicial Police have at times worked as body guards for traffickers, have disrupted the crop eradication efforts and together with various other police agencies have had members implicated in the torture and killing of American law enforcement officials. Over the years American law enforcement representatives stationed at the Embassy in Mexico city have raged at ambassadors for their failure to come down hard on corruption.

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At first the reason for going easy on the Mexicans was their cooperation in cold war issues and their quiet help in dealing with Communism in Central America. When Communism ceased being an issue, money and financial stability took its place. For two years the effort to negotiate and ratify NAFTA made Mexican political corruption undiscussable within the Bush and Clinton administrations. With NAFTA out of the way, the 1994 Mexican Presidential election took its place as a reason to keep the issue off the table. The assassination of Presidential candidate Donoldo Colosio and the uprising in Chiapas and the collapse of the Mexican economy led to the need for a bailout. Congress was hostile enough to the idea of a bailout without having a full and frank discussion of corruption kill it altogether.

The administration had a plausible argument — a total collapse in Mexico would cause significant harm to the United States and would make each of the issues on the table more difficult. If we discussed corruption and as a result the economic support package failed and in turn Mexico's economy collapsed entirely, the banks would need even more drug money to survive. In a shrinking economy many more Mexicans would be tempted to cross the border illegally looking for work. Drug trafficking would flourish. Finally, there is no guarantee that if the economy were to collapse and the government were to fall that what replaced it would be any better.

There is another side to the issue, however. Corruption is likely to spread across the border. If our Customs agents and Border Patrol officers see the amounts of money that their Mexican counterparts are making, and realize that nothing they do will change the amount of drugs, the number of illegal dollars and the number of people who move across the border it is only a matter of time before we will be dealing with corruption on the same scale. Corruption is contagious.

I believe that we must find ways to work with the Mexicans to deal with some of the external issues that facilitate Mexican corruption. Much of the trouble in Mexico come from the ability of all of the players to move their money out of the country and hide it offshore. Drug money goes offshore, bribe money goes offshore and taxable income disappears offshore. We can help ourselves and the Mexicans by coming down hard on the offshore financial services business. Banks should not be in the business of helping people break the laws of their own country.

There are a number of steps we can take to change the environment which makes the corruption and the money laundering possible.

We should be working at every level to end the concept of "offshore finance". That includes working with other countries to end bank secrecy which protects account information from criminal investigations. We should prohibit our banks from doing business with "International Business Corporations" which do no business in their country of incorporation and have hidden ownership. We should try to get other countries to follow suit. It may be necessary to pass new legislation to control the "private banking" departments of international

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banks. Those departments can offer legitimate services to wealthy customers. They should not offer assistance in getting around the law as one of the services.

We should also continue our efforts to make the United States and inhospitable place for Mexicans who have fled with their illegitimate funds. Our arrest of Mario Riuz Masseau and our investigation of his finances has gone a long way to raise the debate about corruption from the level of name calling to the level of dealing with reality.

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TESTIMONY
DEPUTY ASSISTANT SECRETARY JONATHAN WINER
Bureau for International Narcotics and Law Enforcement Affairs

Subcommittee on General Oversight and Investigations of the Committee on Banking and Financial Services
U.S. House of Representatives

September 5, 1996

"U.S. Law Enforcement Response to Money Laundering Activity Associated With the Importation of Illegal Drugs Via Mexico"

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to discuss the U.S. Government's response to drug-related money laundering in Mexico. President Clinton and Secretary Christopher have made the fight against global money laundering and international organized crime one of our principal foreign policy concerns, integrating it with our other key national security objectives. In this regard, battling the growing strength and wealth of the Mexican drug cartels, responsible for shipping some 50-70 percent of all cocaine to the U.S. market and huge amounts of other illicit drugs, is especially important.

Success in achieving our foreign policy and law enforcement objectives in Mexico and elsewhere strongly depends on a coordinated strategy at home and abroad. As you know, both the Secretary of State and the U.S. Chief of Mission have statutory responsibilities for coordinating activities of U.S. Government personnel abroad, including the representatives of U.S. law enforcement agencies. The Department of State also supports our law enforcement mission using the tools of diplomacy to enhance international cooperation and by funding technical assistance and law enforcement training programs internationally. I would, therefore, like to discuss the State Department's role in advancing our law enforcement interests in Mexico with special reference to money laundering linked to the illegal drug trade.

As Committee members know, the President gave Mexico full certification for its narcotics control record in the last cycle. There should be no mistake about the Administration's position. We share the Congress' serious concerns about the drug trade in Mexico and its impact on our own narcotics problem at home. President Zedillo also recognizes the seriousness of the drug trafficking situation and has declared it to be the principal national security threat to his country. The Mexican government is taking demonstrable action to fight drug trafficking and related crimes, including money laundering.

The Money Laundering Threat in Mexico

Money laundering is a global phenomenon -- a threat to financial institutions and stability around the world. The United States is no exception. It tends to move away from jurisdictions

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that impose effective controls and to those where such controls are not in place. As criminals have seen the risk and cost of money laundering rise in the U.S., they have looked to Mexico and other markets for the initial placement of their illicit proceeds. As the State Department noted in its 1996 International Narcotics Control Strategy Report (INCSR), Mexico is a high-priority money laundering concern, primarily for this reason. Its proximity to the U.S.; serious problems of corruption; and lack -- until earlier this year -- of adequate legislation, regulation or enforcement made Mexico an increasingly important "money laundering haven of choice for initial placement of U.S. drug cash into the world's financial system." Once placed into Mexico's increasingly sophisticated financial system, these proceeds can be moved in a variety of forms, including wire transfers and drafts drawn on Mexican banks payable through United States' correspondent accounts. All of these mechanisms are, of course, designed to conceal the illicit source of these funds. Indeed, the successful layering of complex financial transactions allows illicit proceeds, generated in the U.S., to be repatriated to the U.S. undetected.

There are many reasons why Mexico is a major destination of choice for Western Hemisphere drug cartels seeking to evade tighter enforcement measures in the U.S. The porous 2000-mile border between the U.S. and Mexico allows bulk cash to be smuggled out of the U.S. and into Mexico with relative ease. Because Mexico is only now developing suspicious reporting and large currency transaction reporting requirements, these illicit proceeds have been placed into Mexican banks and non-bank financial institutions with virtual anonymity. Mexican officials have also stated that corruption within the supervision and enforcement systems is another important factor facilitating money laundering in Mexico. Indeed, money laundering activities are enormously profitable for compromised financial institutions, corrupt banking officials and money brokers, and others willing to exploit the weaknesses in the Mexican financial system.

Mexican officials estimate that roughly $30 billion in drug cash was repatriated to Mexican drug cartels in 1994, and an even higher amount was moved into Mexico for repatriation to Colombia during the same period. Recent allegations of money laundering and corruption leveled at important politicians in Mexico have heightened awareness and concern about this problem in Mexico and the United States.

The U.S. Response

U.S. engagement with Mexico to enhance our anti-money laundering efforts is not itself new. As part of the Administration's narcotics control strategy and its rigorous application of the drug certification law, we have targeted money laundering controls as a key component of the program to combat drugs. If we are to attack the drug cartels successfully, we must attack their financial resources with vigorous enforcement of money laundering and asset forfeiture laws. In this regard, we have for some time worked closely with Mexican law enforcement officials to investigate and prosecute money launderers and drug traffickers. The January 1996 deportation of Juan Garcia Abrego, the first foreign-based drug trafficker to be placed on the FBI's Ten Most

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Wanted List, is only one example of the success of these cooperative efforts. In general, the Mexican government's performance in extraditing fugitives to the United States has improved substantially in 1996. Twice as many fugitives -- ten in all -- were extradited to the U.S. in the first eight months of 1996 as in all of 1995. Among the 1996 extraditees are two Mexican nationals, an unprecedented step given the Mexican constitution's strictures on extraditions of nationals. Additional extraditions of Mexican nationals are anticipated. Of course, we want to see all of our extradition requests honored in every country to bring criminals to justice. But we are seeing more criminals returned to the United States or prosecuted in Mexico, and this is progress.

The Department of State works closely with U.S. law enforcement agencies to support the full range of fugitive and other law enforcement investigations involving Mexico and, where appropriate, to secure the cooperation and participation of Mexican authorities. We also support law enforcement training efforts in Mexico designed specifically to enhance its ability to work effectively with U.S. law enforcement officials.

Our efforts have been hampered, however, by Mexico's slow progress in developing a comprehensive anti-money laundering regime of its own. Ultimately, it is the adoption and aggressive enforcement of strong laws and regulations in Mexico that will allow it to become a fully effective partner in the global fight against money laundering. We have, therefore, redoubled our efforts to work with Mexico to develop this comprehensive regimen. Our efforts have centered around two Presidential initiatives that I would like to discuss briefly.

President Clinton directed last fall that Treasury, in consultation with State and Justice, identify countries which have the most serious money laundering problems and pursue appropriate measures to address our concerns. To implement this strategy, the law enforcement, intelligence and diplomatic communities have worked together to assess global money laundering and develop country-specific programs to address it. At this juncture, we are in the initial stages of engaging diplomatic efforts with countries identified as having serious money laundering problems. In accordance with the tenets of this Presidential directive, more aggressive measures to bring about the necessary reforms are being deferred until diplomatic avenues have been pursued fully.

As we developed our money laundering strategy, it became clear that in Mexico, money laundering controls had to be part of a comprehensive drug control effort. Since President Zedillo took office in December 1994, Mexico's counternarcotics efforts have intensified significantly -- in eradication, law enforcement action, interdiction, and judicial sector reform. In March 1995, President Clinton and President Zedillo established a High Level Contact Group to ensure that important areas of the bilateral relationship - including money laundering concerns - receive regular attention at the most senior levels of government, both to press for even greater cooperation and work to resolve disputes. Under the supervision of the High Level Contact Group, technical working groups have been established on such issues as counternarcotics efforts, arms trafficking, chemical precursors and money laundering.

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Our efforts to engage Mexico in these related Presidential initiatives are already bearing fruit. In May 1996, after years of inaction by previous governments, the Zedillo administration enacted a bill establishing money laundering as a criminal offense punishable by five to fifteen years imprisonment. Prior to this new law, money laundering in Mexico was a tax offense which provided for a penalty of only three to nine years and could only be triggered through the course of an audit of a financial institution.

By contrast, the May 1996 legislation has important features that will clearly strengthen the Mexican government's capability to detect, investigate and prosecute money launderers. It includes a wide range of predicate offenses -- beyond drug trafficking. This is important because we know that sophisticated money launderers increasingly commingle the proceeds of drug and non-drug crimes. The legislation also applies equally to all those involved in laundering transactions, including the employees and officers of financial institutions. Moreover, while the law on its face requires an individual to have actual knowledge that the proceeds being laundered come from an illicit source, Mexican officials have advised us that, similar to U.S. law, the knowledge requirement also includes "willful blindness." As our law enforcement colleagues will no doubt tell you, the adoption of this standard is an important feature to compel vigilance among bank officials and others who may otherwise hide their heads in the sand to facilitate money laundering activity.

In addition to the May 1996 money laundering legislation, the Mexican government has also submitted to the Mexican Congress a critically important legal package aimed at enhancing the government's ability to combat organized crime. This bill was approved overwhelmingly by the Mexican Senate in May and now awaits review by the Chamber of Deputies. It provides for use of modern investigative tools and techniques by Mexican law enforcement personnel, such as electronic surveillance and use of undercover operations, and also establishes a system for witness protection. These have been critical to our success against organized crime in the U.S. and we have long encouraged Mexico to consider adopting similar provisions. It is worth noting, too, that the Zedillo government had to overcome considerable legal, even constitutional, obstacles, as well as to address public concerns about the potential for abuse of these new authorities.

We hope this important bill will pass soon so that the Government of Mexico can begin work on drafting and implementing regulations and to train its law enforcement personnel how to use the evidence obtained with these tools in criminal prosecution. Many of these regulations will involve significant departures from past practices and traditions. The government also plans to set up systems of checks and balances and other controls to prevent abuse of the new authorities by overzealous or corrupt government personnel. The U.S. has offered to provide training and technical assistance as part of a bilateral plan being developed under the auspices of the U.S.-Mexican High Level Contact Group on Narcotics Control.

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The Zedillo administration has also recognized the importance of developing an adequate reporting system for financial institutions. Pursuant to authorities provided by current money laundering legislation, the government is now drafting regulations that would require banks and other financial institutions to report suspicious transactions and large currency transactions to government authorities. The Mexican Government has established early 1997 as the target for implementing the suspicious transaction reporting (STR) requirements, to be followed by regulations for currency transaction reporting (CTR). However, the timely implementation of these regulations depends in part on Mexico's ability to procure specialized computers and software, which I will discuss in a moment.

Any discussion of Mexican law enforcement efforts must address the Zedillo government's efforts to counter and control corruption. Both President Zedillo and Attorney General Lozano have publicly acknowledged that official corruption is a serious problem in the Mexican justice sector and have taken aggressive measures to counter it. This was a major objective of the reorganization of the Justice Ministry (PGR) in 1995. The firing of over 1200 federal police agents for narco-corruption and other abuses is the second such mass dismissal since Zedillo took office; we view this as a promising development.

Moreover, the Mexican government is taking greater steps to change both recruiting and personnel practices that contributed in the past to the spread of corruption; nonetheless, much more needs to be done to strengthen legal/judicial institutions. The U.S. has offered, and the Government of Mexico has accepted, training and technical assistance, and this will be expanded under the bilateral training plan. The Zedillo government's progress in this important area to date is encouraging, but we will continue to stress the importance of meaningful and concrete action against narco and other corruption to the bilateral relationship.

Mexico's important legislative and other achievements are not themselves enough to address the threat of money laundering. The true test of the Zedillo Administration's willingness to combat money laundering is whether it will take concrete steps to implement the new laws, to adopt needed regulatory reform to supervise the financial system, to prosecute and convict money launderers in Mexico, and to seize and forfeit the assets involved. It is in these areas that the next phases of our diplomatic efforts are focussed.

The Road Ahead

In the upcoming weeks and months, we will continue to move to address money laundering in Mexico. We will do so maintaining our bilateral dialogue with Mexico, supporting these efforts through technical assistance and training, and fully engaging in multilateral activities.

Bilateral Efforts: We are concentrating much of our bilateral dialogue in the High Level Contact Group process. As I noted earlier, within that framework we have formed a special sub-group to

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discuss specific anti-money laundering efforts and coordination issues with Mexican officials. This money laundering working group includes U.S. experts from the Departments of Treasury, State and Justice, and Mexican experts from Treasury (Hacienda), Secretary of Foreign Relations (SRE) and the Attorney General's Office (Procuraduria). The general objectives of this group are to establish a forum in which both governments can, at a working level, candidly discuss ongoing initiatives to combat money laundering, and identify technical assistance and training
that Mexican officials will require to adequately implement strong anti-money laundering measures. The group has already met twice this year, and will reconvene on a regular basis to discuss further issues such as information sharing, additional legislative and regulatory reforms, training and technical assistance and money laundering methodologies.

Training and Technical Assistance: We will support our bilateral discussions with targetted training and technical assistance. The U.S. is fortunate to have the best trained and most knowledgeable law enforcement and anti-money laundering experts in the world. Our law enforcement agencies have the benefit of decades of experience investigating and prosecuting money laundering in the U.S., more than virtually all other countries in the world. However, when attacking global money launderers, we know we must cooperate and coordinate with foreign law enforcement authorities, many of whom are ill equipped to undertake large financial investigations. We must be willing to provide our expertise to other nations as a way of accomplishing our goals. Our assistance is especially important in the anti-money laundering effort since these investigations in most instances are extremely complex and time consuming.

International law enforcement training is a critical component of U.S. foreign policy objectives. In undertaking international law enforcement training and technical assistance, particularly in anti-money laundering, the State Department has two basic goals in mind. The first is to build institutional expertise and capability in foreign countries so cooperation can increase. The second is to foster close working relationships between U.S. and foreign law enforcement authorities.

We administer our international training and technical assistance programs consistent with U.S. foreign policy. Providing training and technical assistance to Mexican officials can only further our foreign policy and law enforcement interests in combatting international money launderers. We do this recognizing that resources are limited and it is important to coordinate this assistance among the multiple U.S. law enforcement agencies that have expertise in this area.

Key objectives of the interagency money laundering working group ares to identifying both short and long-term training and technical assistance needs for Mexico and to insure that practical training and technical assistance is well coordinated among U.S. and Mexican agencies. Based on the first meeting in July 1996 and an initial assessment, the working group has recommended, and the State Department will provide support, to Mexico for the purchase of

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hardware and software in order for Hacienda to develop the necessary tools to handle Suspicious Transaction Reports (STRs). We will also be supporting and coordinating with Justice and Treasury three to four training programs for PGR and Hacienda personnel among other short-term projects this year.

Although we have a wide range of initiatives ongoing to assist Mexico in combatting money laundering, our investment in dollar terms is not large at this stage. As we identify other areas of technical assistance and training through the efforts of the money laundering working group, it is likely that additional funding will be required. All of our training efforts are designed to increase the capabilities of target countries to work effectively with our law enforcement officials and take the battle against organized crime groups to their home turf. As such, these programs further our law enforcement and foreign policy interests.

Multilateral Efforts: It is also important that we engage Mexico in multilateral fora. Not only can we encourage reform in Mexico through organizations such as the Caribbean Financial Action Task Force and the OAS, but Mexico can also be an important ally as we work to establish international standards throughout this hemisphere and beyond.

Conclusion

Mr. Chairman, money laundering activity in Mexico poses a real threat to the national security of the United States, but it is an even bigger threat to the people of Mexico and their financial system. The Zedillo administration has recognized this threat and is taking concrete steps to address it. So long as Mexico continues to demonstrate the political will to move forward, the Department of State and the law enforcement community will continue to work with and support it. We will continue to work with Mexico to ensure adoption of a comprehensive anti-money laundering regime. Indeed, our experts are meeting here in Washington next week to discuss the implementation and enforcement of its new anti-money laundering law. We will support these efforts with training and technical assistance where necessary. And we will continue to support and enhance joint law enforcement activity to attack the financial base of the drug cartels. It is only through effective regulation, law enforcement and cooperation on both sides of the border that we will be able to fight the drug traffickers and money launderers successfully.

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STATEMENT OF
JAMES D. DUTTON
DEPUTY ATTORNEY GENERAL
CALIFORNIA DEPARTMENT OF JUSTICE

BEFORE THE SUBCOMMITTEE ON GENERAL OVERSIGHT AND INVESTIGATIONS, COMMITTEE ON BANKING FINANCIAL SERVICES UNITED STATES HOUSE OF REPRESENTATIVE

SEPTEMBER 5, 1996

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I. INTRODUCTION

Good morning, Mr. Chairman and members of the Subcommittee. My name is James Dutton. I am a deputy attorney general for the State of California, in charge of the Attorney General's Money Laundering Program. I am pleased to appear before your Subcommittee today to present testimony concerning the smuggling of narco-currency into Mexico, the difficulties facing law enforcement in tracing the currency once it enters Mexico's financial system, and the efforts of Mexico and the United States in combatting money laundering.

II. CALIFORNIA'S MONEY LAUNDERING PROBLEM

California is facing a daily deluge of illicit proceeds derived from narcotic trafficking. California is the acknowledged drug and money laundering capital of the country. Southern California is a collection center for currency derived from narcotic trafficking nationwide (primarily from the western states).

Just released Los Angeles Federal Reserve Branch cash surplus figures for 1995 show an unprecedented $5.5 billion increase over those for 1994--from $8.06 billion in 1994 to $13.595 billion in 1995.[1] In comparison, the cash surplus figures for 1985 were only $156 million. The Los Angeles Federal Reserve Branch has the largest cash surplus of any federal

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1. Cash surplus figures for a calendar year are determined by subtracting the aggregate amount of currency distributed by the Federal Reserve Branch to member banks from the aggregate amount of currency received from the member banks. The Los Angeles Federal Reserve Branch's jurisdiction encompass southern California, Arizona, and Nevada.

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reserve region. Over two-thirds of the increase in currency taken in by the Los Angeles Federal Reserve Branch between 1990 and 1993 is attributable to $100 bills as compared to all other denominations. ($100 bills being the denomination of choice of narcotic traffickers.) Approximately 85% of the 1995 increase in cash surplus is attributable to $100 bills. The dramatic increases in cash surpluses in the nineties at the Los Angeles Federal Reserve Branch coincide with southern California taking over from Miami as our nation's drug trafficking center.

There is not a direct correlation between increases in cash surpluses at Federal Reserve banks/branches and increases in revenues derived from drug sales. However, many law enforcement officials believe that the dramatic increase in cash surplus in the Los Angeles Federal Reserve Branch over the past several years is largely attributable to increased revenues derived from narcotic sales entering the domestic banking system.

California law enforcement has seen four major trends in the laundering of drug proceeds over the last few years:

- Collection of drug proceeds and the domestic movement of money are controlled by Mexican organized crime families.
- Southern California as a collection center for money derived from narcotic sales nationwide.
- Current smuggling southbound into Mexico--usually by vehicle.

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- Increased use of non-bank financial institutions and other businesses to facilitate money laundering.

A. Mexican Organized Crime Families

For several years Mexican organized crime families have contracted with Colombian cartels to smuggle cocaine across the Mexican border into southern California. Over the last two years the Mexican families have also taken over the collection of money derived from the cocaine sales. The "families" utilize their well established network for the distribution of drugs nationwide to collect sale proceeds and move the money within the United States, often back to California.

Over the last two years, the Mexican organized crime families have also become the dominant force in the manufacture and distribution of methamphetamine in California. Law enforcement officials believe that the collection of proceeds from the sale of methamphetamine is handled by the drug distribution network.

Mexican organized crime families are operating "Super" Methamphetamine labs which are capable of producing up to 500 pounds of methamphetamine a day (compared to 50-100 pounds per day for conventional labs). Methamphetamine seizures in California rose from 1,400 pounds in 1991 to over 18,000 pounds in 1995.

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Methamphetamine is being distributed by the Mexican distribution networks throughout the western states and through parts of the midwest and southeast. Powder methamphetamine from California and Mexico is now the primary source for crystal methamphetamine (ice) for sale in Hawaii. (The powder methamphetamine is converted to ice in Hawaii-based labs.) This increase of epidemic proportions in the manufacture and distribution of methamphetamine results in increased drug revenues being collected in California for bulk currency transportation to Mexico.

The cash collection/money laundering side of Mexican narcotic trafficking organizations are decentralized operations. The organizations collect enormous quantities of drug money in the Los Angeles/Orange County areas. Cash stash houses located in southern California will normally limit the currency being stored at any one time to around $500,000.

Currency derived from out of state narcotic sales comes into southern California collection centers by every possible means of transportation. Usually the bulk currency is transported by vehicle along our interstate highways. Currency is also flown into California as well as being sent to California by United States mail and private courier companies. Law enforcement parcel interdiction teams are operating in several California metropolitan areas to seize drugs and illicit currency.

Drug money is also transmitted through domestic financial institutions to California. This can be by bank wire transfer,

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or through multiple money orders or money transfers. The more sophisticated money laundering organization will often use non-bank financial institutions to obtain numerous money orders or money transfers in relatively small amounts ($1,000 or less) in an attempt to evade state and federal currency transaction recording and reporting laws.

Currency is transported from northern California cities by vehicles to southern California collection centers. Couriers (often illegal aliens) will be compensated in the range of $500 per trip for transporting anywhere from $10,000 to $200,000 in their vehicles.

Interstate 5 bisects Kern County (southern central valley county of 400,000 people) in a north-south direction. On an average of two times a month, the California Highway Patrol (CHP) intercepts vehicles transporting currency in amounts ranging from $20,000 to $175,000. The vehicles are often on route to Orange County from the Greater Bay Area. Sometimes, the currency is in open boxes in the back seat and other times, the currency is concealed in compartments activated by sophisticated trigger mechanisms. Once the bulk currency is secured in southern California cash stash houses, it is eventually transported to Mexico. Over the last four years, the CHP Kern County interception program has seized methamphetamines, heroin, cocaine and marijuana with a street value of $1.5 billion from vehicles traveling northbound on I-5.

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B. Currency Smuggling Southbound

The amount of currency being smuggled out of the country cannot be determined, however, law enforcement agrees that the currency being smuggled out of the country is substantial (could be billions of dollars per year).[2]

The comparison of outbound Currency and Monetary Instrument Reports (CMIR) (reports currency and monetary instruments in excess of $10,000 transported between the United States and a foreign country) with inbound CMIRs between the United States and Mexico support the proposition that substantial amounts of U.S. currency is being smuggled into Mexico. Outbound CMIRs to Mexico for 1993 total just under $1 billion. Inbound CMIRs from Mexico for 1993 total in excess of $5 billion. This hugh discrepancy is partially explained by Mexican nationals remitting money earned in the United States to relatives living in Mexico. However, much of the discrepancy can be explained by currency smuggling.

The 1993 and 1994 CMIR figures for the San Diego District ports of entry also show this huge discrepancy in outbound and inbound currency reporting CMIRs (as compared to CMIRs reporting other instruments) between Mexico and the United States. San Diego District ports of entry for calendar year 1993 had inbound currency CMIR filings totalling $153.27 million. In the same time period, there were outbound currency CMIR filings totalling

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2. GAO report to the Chairman, Permanent Subcommittee on Investigations, Committee on Governmental Affairs, U.S. Senate, "Money Laundering--U.S. Efforts to Fight It Are Threatened by Currency Smuggling," March 1994, pp. 2-3, 16-17.

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only $33.37 million. San Diego District ports of entry for calendar year 1994 had inbound currency CMIR filings totalling $141.91 million. In the same time period, there were outbound currency CMIR filings totalling only $32.83 million. (There is almost five times the amount of currency being reported coming into San Diego from Mexico then going from San Diego to Mexico in 1993 and 1994.)

Non-descript vehicles (model years 1985-1990) are used to transport bulk currency in amounts from $50,000 to $600,000 from southern California cash stash houses to Mexico. For example, last year law enforcement interdicted a courier who had made 14 trips from Irvine, California to Mexico within one year--each trip he transported $500,000 in currency.

Often the same vehicle is used to transport currency back into Mexico that transported the drugs into California. The currency is hidden in the same secret compartment that hid the drugs during the northbound trip.

United States Customs TECS (Treasury Enforcement Communication System) print-outs show known load vehicles making repetitive northbound entries within short time intervals through San Diego ports of entry.

The overwhelming majority of currency load cars reach their Mexican destination undetected by law enforcement. Effective southbound vehicle border checks would intercept additional currency couriers. However, at your high traffic volume ports of entry, such as San Ysidro (San Diego/Tijuana Port of Entry),

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periodic southbound checks would have a significant negative impact on the flow of commercial and private vehicles entering Mexico. Presently, courier vehicles which are intercepted in California heading southbound are usually stopped based on traffic violations or informant/undercover law enforcement information.

The use of vehicles to transport currency into Mexico is not the only land transportation method used by money launderers. Surveillance at one of San Diego District ports of entry (San Ysidro/Tijuana) observed a person walking across the border carrying a bag containing $50,000 in cash.

C. Money Flow from Mexico to the United States and Other Countries

Once the currency is transported across the border, the cash is normally deposited with a Mexican brokerage house or directly with a bank. Mexican Casas de Cambio (money exchange houses) are no longer the financial institutions of choice for money laundering by Mexican organized crime families. The number of Casas de Cambios have dramatically decreased as a result of recent Mexican licensing laws.

Bulk currency is now often delivered to Mexican brokerage houses. As many as five load cars have been observed delivering currency to a brokerage house in a single day. A major brokerage house can move $5 million to $10 million at a time for a Mexican "family." A brokerage house can handle the money on its own or act in concert with other brokerage houses by splitting the currency among several "competitors." The brokerage houses trade

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on their reputation to lend an aura of legitimacy to huge cash deposits with Mexican banks on behalf of their clients. Long standing contacts between the brokerage houses and the Mexican banks facilitate the cash transactions. Under Mexican law, a bank and a brokerage house can be owned by the same holding company, and thus, controlled by the same individuals.

Once currency is deposited with a Mexican bank, funds can either be wire transferred to an account located anywhere in the world, or Mexican bank drafts can be issued on an account held by the Mexican financial institution at a correspondent United States bank. A Mexican bank draft is just like a personal check, except the account holder is a Mexican bank instead of an individual. The payee (usually fictitious) on the Mexican bank draft is specified by the depositor (money launderer) of the currency. The draft is either mailed or physically transported to the correspondent United States bank and negotiated. At the direction of the payee of the Mexican bank draft, cashier's check(s) will be issued or the funds will be wired to another account.

Current regulations do not require the filing of a CMIR for the transportation of a Mexican bank draft from Mexico to the United States. (The Secretary of Treasury was authorized to provide regulations pertaining to foreign bank drafts by section 405 of the Money Laundering Suppression Act of 1994.) Further, federal regulations do not require the filing of a Currency Transaction Report (CTR) (report by financial institutions on

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currency transactions in excess of $10,000) for the issuance of cashier's checks or the wiring of funds by the United States correspondent bank. Therefore, without inside information from informants or undercover officers, the laundering of money through the use of Mexican bank drafts is virtually undetectable by law enforcement.

After the Mexican bank drafts are negotiated at the correspondent United States bank, the resulting cashier's check(s) or wire transfer(s) can be used for investment purposes in the United States or to purchase assets to facilitate the organization's narcotic trafficking (e.g., planes, vehicles).

Mexican banks often have more than one U.S. correspondent account and an account's signature card can have as many as 100 bank officials' signatures. This allows banking officials who work at branches throughout Mexico to sign on a single U.S. correspondent account. These practices provide the Mexican organized crime family with a multitude of options regarding the use of Mexican bank drafts.

Where there is a large deposit of currency (e.g., in excess of $1 million) into a Mexican bank, the organization will often structure the transaction so that several Mexican bank drafts are issued in smaller, like quantities (e.g., $250,000 each). Often these multiple bank drafts are transported to Colombia by courier and brokered on the Colombian black market for pesos.

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In 1994, copies of Mexican bank drafts with a total face value of $29 million were seized by Colombia law enforcement in Bogota. The bank drafts represented two months of a Colombian cartel's drug revenues collected in southern California. Many of the drafts were written on a United States correspondent bank account located in San Diego.

Colombian cocaine cartels in concert with their drug distribution and money collection partners (Mexican organized crime families) have set up sophisticated schemes to launder drug currency once it is deposited into Mexican financial institution. Colombian money brokers (Cases de Cambios) arrange with Mexican financial institutions to issue U.S. dollar, Mexican bank drafts to legitimate businessmen in third countries to pay for business debts incurred by legitimate Colombian businessmen. The pesos paid to the Colombian money brokers by the Colombian businessmen for their third country debts in reality go to the Colombian cartels to offset the cartels' deposits of narco-dollars in Mexican financial institutions. (Colombia restricts the use of United States dollars requiring cartel members to arrange for the conversion of U.S. narcotic dollars to Colombian pesos.) The third country businessmen transactors can be fully paid in this manner within four days of the occurrence of the debt creating transaction.

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D. Mexican Organized Crime Investments

Mexican organized crime families are investing their drug proceeds in ranches, finance companies, hotels, and other commercial real estate in Mexico.

In California, their investments range from restaurants, used car lots, and auto repair shops (which help "legitimize" their income as well as in some instances, assist in the transportation of narcotics and currency) to finance companies. The finance companies are used as a vehicle to invest narco-dollars in the United States.

With Mexican organized crime families increased role in the distribution of narcotics and the collection of drug proceeds, they appear to have more bulk U.S. currency stored in Mexico than they know what to do with. I am aware of at least two occasions in the last six months of inquiries made to individuals in the southwest border states to assist in the investment in the U.S. of millions of dollars in U.S. currency located in Mexico.

III. NAFTA AND MAQUILADORES

Transportation businesses on both sides of the border facilitate narcotic trafficking and money laundering. There has been a dramatic increase in the number of trucking companies on both sides of the southwest border over the last decade. This increase has been fueled in part by NAFTA. There is also a dramatic increase in the amount of warehouses--mainly on the U.S. side of the border. The increased trucking activity between Mexico and the United States and the establishment of additional

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support businesses provide Mexican "families" with better opportunities to transport narcotics into the southwest border states.

Up until December, 1995, under NAFTA, Mexican trucking companies could only haul goods to a narrow commercial strip within the southwest border states. From December 1995 through the year 2000, Mexican trucking companies can haul their goods throughout the southwest border states. By the year 2001, under NAFTA, Mexican trucking companies can travel throughout the United States and Canada.

Maquiladores are businesses located in Mexico along the southwest border which are associated with a business on the United States side. Maquiladores usually consist of factories/plants which make or assemble textiles or electronic equipment. The product is then trucked to the United States for finishing and/or sale. As of 1994 there were approximately 2,110 Maquiladores, employing 500,000 people.

Law enforcement has ferreted out more and more instances of hidden Mexican ownership interests in businesses located in the United States which are associated with Maquiladores. Law enforcement for the most part has not been able to ascertain the source of money used to purchase the hidden Mexican ownership interests.

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IV. MEXICO'S RESPONSE TO MONEY LAUNDERING

The key ingredients to effective narcotic and money laundering enforcement on both sides of the border are:

- The passage and aggressive enforcement by Mexico of comprehensive money laundering, currency transaction reporting, and organized crime investigative surveillance laws.
- Rapid exchange of financial information between the United States and Mexico
- The development of an environment of cooperation, confidence, and trust between the United States and Mexican law enforcement agencies
- Establishment of effective and fair asset forfeiture laws in Mexico to take the profit out of narcotic trafficking

Mexico's efforts so far have been inadequate in the areas of passage and enforcement of money laundering and currency transaction reporting statutes. Hacienda (Mexico's Department of Treasury) has made initial steps in the legislative area to address the money laundering problem. However, on the whole, Mexico's efforts do not appear to have had an appreciable positive impact on curbing narcotic distribution in California or money laundering on both sides of the border.

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A. Statutory and Regulatory Response

1. Money Laundering Statutes

Mexico has had a "fiscal" money laundering statute since 1990. "Fiscal" statutes are part of Mexico's tax code and do not constitute general criminal statutes. On or about May 1996, the Mexican Congress passed a money laundering bill which supplanted the "fiscal" money laundering statute. The new legislation is similar to our primary federal money laundering statute, 18 U.S.C., section 1956. The new statute makes it a crime, punishable from five to fifteen years, to knowingly transact, manage, transfer or transport property derived from illegal activities with the intent to conceal its ownership or origin or with the intent to promote any illicit activities.

The classification of money laundering as a general crime allows Mexico's State Attorney General's Offices to prosecute money laundering violations. However, Mexico's state prosecutors have not yet developed an expertise in financial investigations and prosecutions.

2. Mexico's Currency and Monetary Instruments Reports

In 1993 Mexico passed regulations which require the reporting of currency brought into their country. Hacienda has recently implemented new guidelines which require the reporting of $5,000 or more in currency, or anything with a value of $10,000 or more, which is brought into Mexico. Civil and criminal sanctions attach to Mexico's CMIR violations.

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The United States and Mexico entered into a Financial Information Exchange Agreement (FEIA) on October 28, 1994. Pursuant to FEIA, FinCEN and Hacienda have set up a protocol for the exchange of financial information on a case by case basis. Pursuant to FEIA, Hacienda will supply Mexican CMIR data to FinCEN.

3. Currency Transaction and Suspicious Transaction Reporting

Mexico does not have currency transaction reporting statutes. In 1993, Hacienda disseminated non-mandatory guidelines to Mexican banks concerning the detection of money laundering. The Mexican Legislature has passed a measure which allows Hacienda to publish and enforce anti-money laundering rules for banks. As of December 1995, Hacienda was planning to make the above referred to money laundering detection guidelines mandatory.

The Mexican financial system currently acts as a "black hole" in the eyes of the United States law enforcement agents attempting to trace financial transactions through Mexican institutions by Mexican organized crime families. The lack of Mexican currency transaction and suspicious transaction reporting laws stymie U.S. law enforcement efforts to build narcotic trafficking and money laundering cases against Mexican organized crime families who distribute narcotics in California and throughout the United States.

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4. Regulation of Casas de Cambio

Hacienda recently implemented licensing regulations pertaining to the ownership and operation of Casas de Cambio. Hacienda's Compliance Program has had a significant positive impact in the reduction of the number of Mexican Casas de Cambio and the remaining Casas involvement in money laundering.

5. Organized Crime Legislation

The Mexican Congress has failed to pass an organized crime bill, which, among other provisions, would allow wiretapping. The Mexican Congress has the opportunity to act on the much needed legislation between September 1 and November 30, 1996.

V. CONCLUSION

The societal harm caused by money laundering is insidious--often not readily apparent to the uninformed observer. Money laundering has an adverse impact and an extremely corruptive influence on society in that it:

- Funds the continued narcotic trafficking operation
- Creates a huge illicit currency driven, black market economy
- Goes hand in hand with tax evasion so that narcotic traffickers are not shouldering their fair share of the tax burden

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- Corrupts otherwise legitimate businesses such as banking, real estate, automobile dealers, wire transmitters, insurance, and sellers of high priced items by using such businesses to facilitate their money laundering
- Creates an unfair business advantage for businesses funded by illicit revenues as compared to their legitimate competitors (e.g., no cost of capital for businesses funded by drug proceeds)
- Creates an environment of enormous wealth in criminal hands which can translate to political corruption, law enforcement corruption, and judicial corruption

In order for our law enforcement agencies to effectively curb narcotic trafficking and money laundering, it is essential to approach this daunting task in partnership with Mexico. As in any partnership, both partners must use their best efforts to obtain common objectives. The objectives of curbing money laundering and narcotic trafficking on both sides of the border will be achieved if Mexico aggressively enforces their new money laundering statute; passes and enforces/utilizes currency transaction reporting statutes and organized crime statutes; aggressively and professionally enforces existing narcotic trafficking laws; and if U.S. and Mexican law enforcement agencies can work together in narcotic trafficking and money laundering cases which cross our common border.

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Mr. Chairman and Subcommittee members, thank you for the opportunity to make this statement. I will be happy to answer any questions you may have or provide you with any further information you deem appropriate.

This statement expresses the views of James D. Dutton and not necessary the view of the Office of the California Attorney General.

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STATEMENT OF GEORGE J. WEISE
COMMISSIONER
U.S. CUSTOMS SERVICE

BEFORE THE
SUBCOMMITTEE ON GENERAL OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON BANKING AND FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 5, 1996

Mr. Chairman and Members of the Subcommittee, it is a pleasure to be here today to discuss the U.S. Customs Service's experience in the investigation of financial crimes, particularly crimes such as money laundering which traditionally involved the movement of large sums of money abroad, as well as the use and abuse of our financial institutions to facilitate those movements of illicit proceeds.

INTRODUCTION

Our job at U.S. Customs is to find and interdict narcotics before they enter the United States. In addition, our related mission requires us to find and seize illicit profits before they depart the United States. In these roles, we are the nation's principal border interdiction agency.

Today I would like to describe how difficult that job has become and how, in spite of the difficulties, Customs is meeting the challenge.

Customs has a daunting workload. For example, the number of entries filed with Customs in FY 1995 - 14.9 million - represents a five-fold increase over the number filed in 1970 - 2.7 million. We estimate that Customs will process 40 million entries by the year 2010.

In FY 1995, more than 4.4 million containers arrived at our sea ports, a significant increase over previous years, and a red flag for ports like Miami, where foreign trade is expected to rise to $41 billion in 1996.

In spite of the difficulties, we are meeting the challenge. In FY 1995, our interdiction record was a strong one. Nationwide, Customs made narcotics seizures in cargo shipments totaling more than 33,000 pounds of cocaine, nearly 114,000 pounds of marijuana and 147 pounds of heroin. In FY 1995, our currency seizures, nationwide, were in excess of $207 million.

As a rather dramatic example, just over two weeks ago, U.S. Customs Special Agents and Inspectors, working with our counterparts in the Drug Enforcement Administration, conducted a search of an air cargo shipment routed from New York, through Miami, on its way to Cali, Colombia. The air cargo shipment

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contained $6.6 million in drug cash secreted in 40 cartons of electronic equipment. Subsequent investigation by our New York and Miami field offices quickly established that the shipper had sent a sea-going container earlier in the week and that it had departed on a commercial vessel.

Using Customs unique search and re-delivery authority, the cargo was returned to the port of Miami and examined by Customs, revealing an additional $9.2 million in cash. The total seizure of more than $15 million is one of the largest single drug cash seizures ever captured by the Customs Service. The investigation into this currency smuggling organization continues.

THE SOUTHWEST BORDER

Right now, the greatest challenge to our drug interdiction mission is on the Southwest Border, and the threat is rapidly spreading eastward toward Florida, Puerto Rico and the Caribbean. Customs faces the daunting task of confronting trafficking organizations along the 2,000 mile long Southwest Border, while simultaneously processing, in FY 1995, more than 2.8 million commercial trucks, trailers, and rail cars entering the United States across that border. We conducted narcotics enforcement examinations on more than 646,000 of those conveyances, which is an examination rate of over 22 percent.

In January 1995, it became clear that we needed to focus even greater attention on this problem. We initiated Operation Hard Line, which has increased and enhanced our drug interdiction efforts along the Southwest Border. Drug interdiction on this border is a monumental challenge when considered in the context of the enormous volume of activity. Last fiscal year more than 212 million persons and more than 2.8 million commercial conveyances crossed that land border. Identifying and apprehending drug smugglers in the midst of all this activity is the top priority of approximately 2300 special agents, inspectors, and canine enforcement officers on the Southwestern Border.

NAFTA has not had an appreciable effect on drug smuggling along the Southwest Border. However, Customs recognizes that the traffickers will seek to exploit each and every new opportunity they have. The Mexican smuggling organizations that operate in these areas have been in existence for a number of years. The smugglers continue to use a variety of smuggling methods to move their contraband into the United States. Mexican smuggling organizations use hidden compartments in cars, trucks and RV's; commercial conveyances and cargo; private aircraft; and small boats around the border.

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While the traffickers are certainly using cargo to smuggle narcotics across land borders, just as they do at seaports and airports, they have not shifted away from other methods to exclusively focus their efforts on cargo smuggling simply as a result of the NAFTA implementation.

OUTBOUND ENFORCEMENT

While emphasizing drug interdiction, we have continued to conduct outbound currency operations trying to stop the flow of drug proceeds to the foreign traffickers in Mexico. In FY 1995, Customs officers, state and local officers, and National Guardsmen spent approximately 26,192 hours engaged in outbound enforcement. So far, in FY 1996, we have spent approximately 61,000 hours engaged in outbound enforcement.

At Customs, we have a process management philosophy and the Outbound Process is one of our three core processes. We now have a national Outbound Process Owner, and our ports, including the Southwest Border ports, have outbound process owners. As this process is planned and then implemented, I believe we will be able to more effectively deal with outbound currency smuggling.

We do not have outbound primary facilities at most of our border ports. As a result, our inspectors conduct outbound operations in the middle of public highways or streets, which at times can be quite dangerous. A prototype outbound facility is currently under construction in Laredo, Texas. This will be used by our Inspectors to more intensively inspect selected outbound vehicles and passengers, and provide our officers with a safer work environment, protected from the elements, with ready access to computer terminals.

A typical outbound operation in today's environment involves setting up a screening operation in the middle of a street. Whenever possible, we conduct these operations with the assistance of state and local law enforcement personnel, whose presence is often funded with monies from the Treasury Forfeiture Fund. They help us safely control the traffic, and act as a "force multiplier" in our interdiction operations.

During these operations officers screen the traffic and ask one or two quick questions to drivers of selected vehicles. A small portion of the vehicles are chosen for more thorough inspections, and directed to an area at the side of the road. The primary purpose of these operations is to interdict unreported currency. However, they also result in the recovery of stolen vehicles, the seizure of firearms about to be illegally exported, the arrest of fugitives, and the removal of unsafe vehicles from the road by local authorities.

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We conduct outbound operations periodically, for a few hours, and then suspend them. This method is used because currency smugglers visually monitor our operations and cease their attempts when they become aware of an operation. In addition, when we conduct these inspections, traffic at major ports becomes congested prompting traffic alerts to travelers. This also warns outbound smugglers that Customs is inspecting outbound vehicles.

A recent decision by the Court of Appeals for the Ninth Circuit has complicated our efforts to interdict undeclared currency at the border in places such as California, Washington, Oregon, Hawaii, and Arizona. On May 20, 1996, in the United States v. Bajakajian, a Customs case involving the criminal forfeiture of currency for CMIR violations, the Ninth Circuit ruled that forfeitures for CMIR violations always violate the Excessive Fines Clause of the Eighth Amendment to the Constitution.

This decision has required us to make our investigators available during all currency interdiction operations in the Ninth Circuit for immediate follow-up, and has slowed down and complicated these operations. Fortunately, our experienced investigators are usually able to legitimately establish other legal justifications, such as the currency being the proceeds of drug trafficking, that support seizure of the unreported funds. The Justice Department has moved to have a rehearing of this case before the full panel of Ninth Circuit judges.

MONEY LAUNDERING

Money laundering, specifically, that which is related to drug smuggling, is a significant problem along the Southwest Border and in Mexico. Casas de cambio (money exchange houses), the smuggling of bulk cash, and the abuse of bank drafts issued by Mexican financial institutions represent a formidable enforcement and regulatory challenge for both U.S. and Mexican authorities. Operating on the U.S. - Mexican border gives criminal organizations an advantage while creating an obstacle to the investigative process. As millions of dollars derived from illegal activities are smuggled into Mexico from the U.S., investigators on both sides of the border are faced with the enormous task of sifting through this information to develop leads on specific money laundering targets.

Mexico has increased sanctions against money laundering, and effective May 14, 1996, new anti-money laundering law replaced the old law. In most aspects, the new law is similar to the U.S. Money Laundering Control Act of 1986, and appears to have been modeled after this U.S. law. A difference in the U.S. law and the Mexican law is that the burden of proof to show the legitimate origin of seized currency or funds shifts to the claimant

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subsequent to being seized by Mexican authorities. The Mexican Public Minister now does not have to show the source of the seized funds. It is up to the owner to show the funds came from a legitimate source.

Mexico has established a law requiring currency reporting of specific amounts of currency inbound to Mexico. There is no basis in law or regulation in Mexico requiring the reporting of outbound currency from Mexico. Current Mexican anti-money laundering laws (effective May 5, 1996) provide for the seizure and prosecution of persons transporting currency outbound under the following circumstance:

"Whoever knowing that a sum of money is derived from some illegal act . . . transports, transmits or transfers the sum of money from a place in another country, from Mexico to a foreign country"

Under this law, most seizures would occur after the fact, unless the ongoing Mexican investigations identified currency associated with some illegal act under Mexican law. In such a case, the currency would probably be seized upon detection, and more often than not, the detection would not occur at the border.

Presidential Directive 14 requires Federal law enforcement agencies to coordinate in foreign money laundering investigations. As a result, the Secretary of the Treasury, the Attorney General, and the Postmaster General signed a memorandum of understanding for the conduct of international drug money laundering investigations which are conducted by Treasury, Justice, and the Postal agencies.

Customs is an active participant in the Interagency Coordination Group (ICG) which coordinates international drug-related money laundering issues among U.S. law enforcement. In addition, Customs is an active participant in several multi-agency initiatives combating the money laundering problem. These include: Organized Crime Drug Enforcement Task Force (OCDETF); High Intensity Drug Trafficking Area (HIDTA); as well as several other local and regional multi-agency efforts. As a measure of our degree of cooperation with State and local law enforcement, Customs turned over $44 million in the form of asset sharing during FY 1995.

A "High Level Contact Group" was established under the direction of President Clinton and President Zedillo in March 1996. The group, led by ONDCP Director McCaffrey, was established to invigorate drug enforcement on both sides of the border.

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Treasury heads a special sub-group, which specifically addresses money laundering. Customs is a member of the sub-group and has met with our Mexican counterparts, along with other technical experts at Treasury, FinCEN, IRS, DEA, State Department, Justice, and FBI to discuss information sharing, legislative and regulatory developments, training and technical assistance and money laundering methodologies. Customs will meet with the sub-group as they reconvene on a regular basis to follow-up on suspicious transaction reporting, large currency transaction reporting and methods to coordinate and use financial intelligence.

The Department of the Treasury has the primary responsibility for formulating and executing domestic and international economic, financial, tax and fiscal policies. These policies affect the supervision and direction of domestic and international finance, banking and economic matters. It is essential to the effective conduct of fiscal operations that we ensure the stability of all monetary systems while denying access to any criminal enterprise.

In fulfilling Treasury's responsibilities, Customs uses its broad grant of authority to conduct international financial crime and money laundering investigations and initiatives. Our jurisdiction is triggered by the illegal movement of criminal funds, services, or merchandise across our national borders and is applied pursuant to the authority granted to us under the Bank Secrecy Act (BSA), Money Laundering Control Act (MLCA), and other laws enforced by Customs. Combined with our border search authority, Customs enforcement efforts focus on the most significant international criminal organizations whose corrupt influence impacts global trade, economic, and financial systems.

The Customs Service is faced with the enforcement challenge of fostering the free flow of legitimate trade while preventing the use of U.S. financial services, businesses, and international trade to transfer or conceal assets of illicit criminal enterprises. Customs places a high priority on the fight against these smuggling organizations, including their money laundering apparatus, by enforcing laws regarding cash transactions and physical transportation, scrutinizing businesses susceptible to laundering, conducting sophisticated undercover operations, establishing national outreach programs, working with other federal agencies and private industry, and forming mutual assistance agreements with foreign nations.

Money laundering is a significant international industry with a far reaching effect on global economics. It is very similar to other global industries inasmuch as criminal organizations are not limited by national borders and their activities are entrenched in international commerce.

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The Colombian cartels conduct business in a similar manner as legitimate international businesses. Their product is grown in one country, refined in a second, and transshipped through one or more additional countries before it arrives in the country where it will be consumed. To remove their narco-dollars from the U.S., the Colombian cartels are very adept at placing their illicit profits into the U.S. financial system, which by nature of their processing becomes layered and integrated into the international payments system.

This ability to launder the proceeds of a crime is a critical need of criminal organizations. The profits generated from unlawful activity must be disguised and integrated into legitimate financial channels before they can benefit the criminal or be used to further a criminal organization's goals and objectives. Money laundering can involve a simple method or it can be a sophisticated international scheme. In either case, removing or limiting the financial incentive created by the underlying offense is the most efficient and powerful tool available to law enforcement today.

The crime of money laundering, domestically and internationally, remains a multi-billion dollar industry. The extent of the money laundering problem has been estimated by the G-7 nations' Financial Action Task Force (FATF) on money laundering. In their 1990 report, it was estimated that sales of cocaine, heroin and marijuana alone, amounted to approximately $122 billion per year in the United States and Europe. Of this figure, an estimated $85 billion a year is conceivably available for laundering and investment. This is incredible considering that $85 billion dollars in $20 dollar bills would weigh approximately 9,216,000 pounds or 4,608 tons.

As international money laundering methods and activities become more sophisticated, the U.S. Customs Service is seeking to adapt its policies and strategies accordingly. This is as true for non-drug money laundering as it is for the direct proceeds of narcotics trafficking. Transnational criminal organizations of all kinds increasingly layer their profits through investments in legitimate businesses using every component and location of the international financial system to conceal the tainted source of those profits. The financial systems of those countries and territories with strict bank secrecy regulations and weak banking and criminal laws are most vulnerable to exploitation by money launderers. Whether or not they themselves have a role in generating criminal funds, such world-class financial centers attract growing numbers of professional illegal money managers.

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CUSTOMS ATTACHE MEXICO

The U.S. Customs Attache posted in Mexico City has a close working relationship with the Mexican government. As such, he is a significant point of contact on money laundering issues in Mexico. The Attache has received a number of requests for joint investigative activity between the U.S. and Mexico which have led to 57 joint investigations between 1994 and 1996. Mexico recently requested assistance in a $700 million bank fraud investigation, the proceeds of which may have been deposited in Florida and Texas.

This Customs Attache office, like others around the world, operates within the American embassies and serves as a representative of the entire U.S. Customs Service. They are members of the diplomatic community with full diplomatic status and privileges.

As world trade and commerce have expanded, so too has Customs involvement in trade issues. Attaches and Assistant Attaches are in daily contact with Ambassadors, Deputy Chiefs of Mission, and other American Embassy officials at the Minister and Counselor levels. They also interact with the upper echelon of foreign customs, police, and law enforcement agencies.

Customs Attache offices initiate and investigate international money laundering, fraudulent and counterfeit foreign financial instruments that are sold to the U.S. financial community, and the illegal export of arms, munitions, and high technology articles.

Customs Attache offices also investigate trade fraud and violations of intellectual property rights, and other crimes committed by organized criminal groups operating within their areas of foreign responsibility.

The Customs Service has a Customs Attache resident at the American Embassy in Mexico City and Senior Customs Representatives resident at American Consulates in Merida, Hermosillo, and Monterey.

Customs has developed a multi-faceted approach to address money laundering in Mexico that involves interdiction efforts by Customs Inspectors and criminal investigations by Customs Special Agents, as well as training and legislative initiatives designed to equip both our Mexican counterparts and the Customs Service with the tools to do the job.

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INTERNATIONAL TRAINING

Customs Financial Investigations Branch provides money laundering training to foreign counterparts as part of our institution building strategy. Special Agents have traveled to Mexico and provided investigative training to Mexican law enforcement officers and prosecutors. The objectives of this training program are to assist the Government of Mexico in developing anti-money laundering legislation; to enhance cash transaction reporting requirements; and provide for criminal sanctions against money laundering activities, to include unlawful acts associated with fraud, theft, and corrupt practices.

Customs has also made a significant attempt to share its money laundering expertise with its foreign counterparts. During Fiscal Years 1995 and 1996, the Office of Investigations was responsible for coordinating 26 foreign money laundering training programs in Europe, Asia, and Central and South America. This effort has not only enhanced the host countries' investigative capabilities, but helped to develop further international cooperation in combating money laundering.

COOPERATIVE INVESTIGATIONS WITH GOVERNMENT OF MEXICO

Treasury agencies have been particularly active in pursuing money laundering investigations, due to the priority that has been attached to them by the Secretary of Treasury and his counterpart in the Mexican Hacienda. Representatives of the Treasury and the Hacienda have met on several occasions in order to establish a closer working relationship, with special emphasis in the area of money laundering investigations. Joint money laundering task forces targeting casas de cambio along the border have been discussed and continue to be considered as part of a possible solution to the anti-money laundering efforts of both countries, for the near future.

Customs Special Agents have a number of ongoing and complex undercover money laundering operations in place targeting Mexican/Colombian cocaine trafficking groups. Since inception, operations in Houston, Los Angeles, San Francisco, San Antonio, and Tucson have resulted in the seizure of approximately 270 million dollars in drug proceeds, the arrest of 575 suspects involved in money laundering activities, and the seizure of 37,760 pounds of cocaine.

As an example, Operation Choza Rica, launched by Customs Special Agents in McAllen, Texas, uncovered and subsequently dismantled a major Mexican money laundering network along the Southwest Border. This intricate web involved Mexican casas de cambio and banks in the United States and Switzerland. In a series of

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criminal indictments, managing directors of several major Mexican casas de cambio and U.S. Banks to include American Express Bank International, First City Bank, Lone Star National Bank, and International Bank of Commerce were indicted for laundering money for the Garcia-Abrego cocaine smuggling organization. In excess of $60 million in cash and other assets were seized in this investigation and the investigating agent testified before the House Banking Committee on its success.

As a result of this and similar investigations, the Customs Service and FinCEN identified a substantial money laundering trend: the use of foreign issued bank drafts, predominantly issued by Mexican banks, to launder substantial amounts of drug proceeds. In 1994, Treasury and Customs, working together with Congress, proposed legislation which ultimately passed, that made foreign issued drafts reportable pursuant to the Bank Secrecy Act. A notice of proposed rulemaking implementing the statute is to be issued by FinCEN in the near future. Moreover, Customs has a few specifically trained detector dogs to find currency being exported illegally along the Southwest Border.

The U.S. Customs Service has also conducted a number of joint investigations with Mexico to return fraudulently obtained funds that were transferred to U.S. banks. U.S. Customs has established task forces to identify and seize assets purchased with funds illegally derived in Mexico, liquidate the assets, and repatriate the funds. U.S. Customs Attache representative in Mexico responds to requests from foreign governments through mutual assistance agreements.

For example, the Customs Attache, Mexico, met with Hacienda officials in 1994 and requested their assistance in apprehending Ricardo NEVAREZ OCAMPO, a U.S. fugitive. At that time, the Mexican Hacienda was investigating NEVAREZ OCAMPO for defrauding the Mexican Government of approximately $700 million. NEVAREZ OCAMPO "acquired" the government funds through a series of loans from State-owned banks to phantom companies. The Customs Attache, Mexico, obtained documents pertaining to illicit activities conducted through businesses owned or operated by NEVAREZ OCAMPO and identified companies and bank accounts in the U.S., Mexico, and Cayman Islands where allegedly laundered proceeds have been invested by NEVAREZ OCAMPO.

The U.S. Customs representative office in Merida, Mexico, worked with the Mexican Hacienda and the Office of the Mexican Attorney General on obtaining information on several business entities and bank accounts as part of the investigation. In July 1994, several collateral investigations were initiated by U.S. Customs offices in Florida and Texas to identify assets and locate bank

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accounts associated with the $700 million bank fraud against the Mexican government. In October 1994, NEVAREZ OCAMPO was arrested in Acapulco, Mexico.

After being "stung" by U.S. law enforcement, money launderers are fearful of being detected through improved U.S. bank reporting requirements and are moving bulk shipments of cash secreted in tractor trailers, airplanes, and shipping containers often carrying legitimate merchandise across the Southwest Border. After the cash is in Mexico, it can be placed into the virtually unregulated financial system and wire transferred anywhere in the world. Operation Choza Rica also confirmed that illegal proceeds are invested in legitimate enterprises and that money laundering occurs through loans, letters of credit, offshore banking transactions, securities trading, and other schemes.

As a result of cooperative money laundering investigations with the Government of Mexico during Fiscal Year 1995, the Customs Service provided them with approximately $6 million in asset sharing funds.

Although our working relationship is good, our law enforcement efforts to combat money laundering activities in Mexico have been hampered in the past in part by the lack of specificity in the Mexican money laundering statute. This has changed with the recent enactment of the money laundering statute which is very similar to U.S. law.

CLOSING

International criminal organizations layer their profits through investments in legitimate businesses using every component and location of the international financial system to conceal the tainted source of those profits. The financial systems of those countries with strict bank secrecy regulations and weak banking and criminal laws are most vulnerable to exploitation by money launderers. Whether or not they themselves have a role in generating criminal funds, such world-class financial centers attract growing numbers of professional illegal money managers.

We will continue to work to identify the methods, individuals, and institutions that are involved in the movement of criminal proceeds into and out of the United States. As international money laundering methods and activities become more sophisticated, the U.S. Customs Service will shift its strategies and resources accordingly.

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Legal Research International

September 2, 1996

The Honorable
Spencer T. Bachus
Chairman
Subcommittee on General Oversight &
Investigations
Committee on Banking & Financial Services
212 O'Neill Office Building
Washington, D.C. 20515

Dear Chairman Bachus:

This letter and the attachments comprise my written response to the Subcommittee's questions contained in your August 27, 1996 letter. God willing, I will appear before you and your colleagues on Thursday September 5th. At that time, I shall make some general remarks about these materials and will answer any questions you may have.

Below are some specific answers to your questions. You have asked that I provide any insight regarding the following issues:

1. Initiatives taken by U.S. law enforcement agencies to respond to increases in the laundering of drug proceeds in Mexican financial institutions and your assessment of the success of these efforts.

Generally speaking, efforts by U.S. agencies to interdict and eliminate the laundering of proceeds from drug trafficking in Mexico have been ineffective. One reason for this failure is that the agencies involved, including the U.S. Customs Service, Drug Enforcement Agency and FBI, have made a practical and operational decision to focus limited resources on interdicting illegal drugs entering the country rather than preventing the illicit export of drug proceeds out of the U.S.

A second and perhaps more important reason for the failure of U.S. agencies to successful interdict and eliminate the flow of illicit cash from drug transactions into Mexico is that U.S. agencies cooperate with law enforcement agencies inside Mexico. Mexico is a Mafia State; a country of

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over 100 million people ruled by a criminal organization that masquerades as a representative and accountable government. Quite often, Mexican law enforcement agencies are actually engaged in drug trafficking and money laundering activities directly, as a business, thus by cooperating with these agencies and with Mexican political leaders generally, the U.S. agencies concerned with eliminating drug trafficking are working with precisely the very people who are engaged in the illicit activities.

As discussed in the draft article contained in the Appendix to this letter, both the government of **Carlos Salinas de Gortari** (CSG -- 1988-1994) and the current government of **Ernesto Zedillo Ponce de Leon** (EZPL) have direct and continuing ties to individuals and groups engaged in drug trafficking and money laundering. It is absurd and ridiculous to suggest that U.S. law enforcement agencies can be effective in eliminating drug trafficking and money laundering activities in Mexico unless and until we accept and recognize that the government of Mexico is part of the problem and not part of any prospective solution.

2. The role that "outbound" smuggling into Mexico of U.S. currency has in regard to money laundering activity associated with the Mexican narco-crime syndicate and any efforts by U.S. law enforcement agencies to reduce currency smuggling into Mexico.

See response above. In addition, it must be noted that Mexico is too small of a nation and economy to accommodate the full flow of funds that moves across its border each year as a result of illegal sales of cocaine, heroine and marijuana in the U.S. The physical cash that moves into Mexico is generally moved to other venues, such as Argentina, Panama, Austria, Italy, Russia, etc., where large sums of physical cash can be deposited into local banks and thereby laundered.

3. The effectiveness of the Clinton Administration's policies on combating the illegal drug trade in Mexico and corresponding money laundering activity.

When CSG came into office in 1998, roughly one third of the cocaine sold in the U.S. moved through Mexico. Today, some 70-80 percent of the cocaine sold in the U.S. comes from Mexico, along with virtually all of the heroine and a large portion of the marijuana. Based on this fact and the reported increase in the amount of cocaine available in the U.S., and the reduction in street prices for cocaine, it seems reasonable to conclude that the Clinton Administration's efforts to interdict and eliminate the flow of drugs from Mexico has been a failure.

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The primary reason for the failure of the Clinton Administration to address the issue of drugs coming from Mexico is the White House's emphasis on maintaining financial stability in Mexico. The financial rescue fashioned by Treasury Secretary **Robert Rubin** and Federal Reserve Chairman **Allan Greenspan** in February 1994 has proven salubrious for Wall Street, but by making the stability of financial markets the first (and really only priority), the Clinton White House makes it effectively impossible to publicly pursue other issues. Without direct public pressure on the government of EZPL regarding issues such as drugs and money laundering, the Mexican government is unlikely to take any effective actions (and probably would not do so in any event).

4. The significance of anti-money laundering legislation recently enacted by the Mexican government.

Like most Mexican laws, the anti-money laundering legislation recently enacted by the Zedillo government is beautifully written, brilliantly organized and almost totally without effect. Laws in Mexico are observed in the breach, particularly regarding drug trafficking and money laundering. No amount of new legislation can alter the fact that Mexico's government is authoritarian and anti-democratic, and thus unresponsive to the will of millions of Mexican who oppose narcotics trafficking and money laundering.

The fact that Washington has decided, as a matter of policy, to support the government PRI party in Mexico rhetorically and with billions of dollars in loans raises the question of whether the U.S. really is serious about fighting drug trafficking and money laundering. Until there is political change in Mexico of a democratic and comprehensive nature, it is unlikely that any progress will be made in fighting drug trafficking and money laundering.

Remember: the profits from drug trafficking in and through Mexico are approximately $30 billion annually while the total flow of cocaine, heroine and marijuana through Mexico is worth roughly $100 billion per year. In other words, the *profits* from the drug trade are twice as large as the total *revenues* of Mexico's oil monopoly Pemex. Drugs are clearly the largest commercial activity in the country and the ruling PRI party benefits from the business of drugs in a very direct way.

5. Your assessment of (a) the ability of Mexican law enforcement and banking regulators to enforce new money laundering laws and (b) the prospects for Mexican law enforcement to reduce significantly money laundering in Mexican financial institutions in the near term.

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See above response. Also, in the Appendix to this letter is an article from the August 17, 1996 edition of *El Financiero*. The article by **Jose Reveles** features a photograph of Mexican Procurator General **Antonio Lozano** attending a bullfight with **Antonio Ibanez Cornejo**, the regional *delegado* of the office of the Procurator General in Tijuana. It is my belief, based upon numerous discussions and interviews with Mexican citizens over the last month, that Mr. Ibanez is one of the most corrupt police officials in Mexico. He is responsible for law enforcement in the Tijuana area, yet a massive flow of drugs continues to move in, around, over and under the area under his responsibility. Moreover, it is my belief, based upon interviews and discussions with Mexican citizens, that Sr. Ibanez was directly responsible for the arrest of **Ricardo Cordero**, the former official of the office of the Procurator General in Tijuana who the Subcommittee invited to attend this hearing.

6. Estimates (in dollars) of the total amount of drug proceeds of the total amount of drug proceeds that are laundered through Mexico each year and whether this activity has increased in the last decade.

The total size of the amount of money laundered through Mexico is difficult to estimate, but it probably approximates the $30 billion annual profit figure that is commonly accepted by most analysts. It is unlikely that Mexican financial institutions could handle $30 billion in illicit physical cash each year, thus a large fraction of this amount must move *through* Mexico to other venues before being deposited in a bank of other depository institution. Once the physical cash has been "laundered" by entering a bank or other depository institution, then the funds may then move electronically back into the U.S. or to a variety of investment venues around the world. Members of the PRI *narco* Mafia in Mexico are especially fond of Spain, France and the UK as sites for hiding their ill-gotten wealth and vacationing.

7. The effects of the NAFTA trade agreement on the cross-border illegal drug trade and corresponding money-laundering activity.

The impact of NAFTA has been to make it easier to move drugs into the U.S. as well as to move physical cash out. The Customs service is able to inspect only a tiny fraction of the trucks, automobiles and aircraft that move back and forth across the border each day. The drug traffickers are aware of this fact and thus increasingly place shipments of drugs and cash in commercial vehicles. In order to reverse this situation, the U.S. would be required to essentially close the U.S. Mexican border to vehicular traffic and sharply curtail air traffic from other Latin nations.

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8. The role Mexican bank drafts or bearer bonds play in the laundering of illicit drug proceeds.

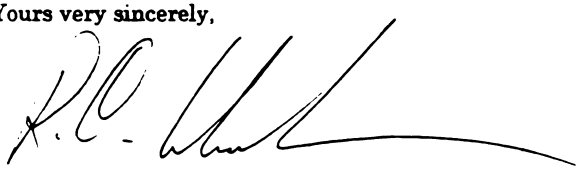
Obviously, to the extent that a Mexican bank provides a narcotics trafficker with access to drafts and bearer instruments, it facilitates the process of laundering illicit cash and makes it difficult if not impossible for U.S. authorities to identify criminal activity. Most Mexican banks, knowingly or not, provide such services. Mexican regulation of such activities, not to mention regulation of banks generally, is virtually nonexistent. Mexican banks hire their own private auditors and are rarely inspected by government officials or auditors, who are so few in number as to be completely ineffective.

For example, imagine that a drug trafficker walks into a Mexican bank and deposits $40,000 in physical cash. The trafficker then wires the funds to a U.S. bank in the name of a foreign national, who subsequently uses the funds to acquire real estate or other assets in the U.S. Via this relatively simple transaction, the cash has been laundered and rendered legitimate -- unless U.S. authorities are able to prove the connection between the dirty money and the seemingly bona fide account in the U.S.

In another example that has actually occurred, consider the case of Carlos Cabal Peniche discussed in the article includes in Appendix One to this letter. A close friend and associate of both CSG and EZPL, Cabal spent literally billions of dollars acquiring banks, land and other assets in Mexico and other nations, and much of this money came from offshore sources that reportedly were linked to drug trafficking and money laundering.

I will be happy to answer any questions about these comments or the enclosures.

Yours very sincerely,



Christopher Whalen
Director & CFO

Enclosures

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Narcosistema II: The Salinas Cabal (Revised 9/2/96)

In November of 1994, the author published a lengthy article entitled "Mexico: El Narcosistema," in the Bogota, Colombia magazine "Dinero." The article stated in part that "most Americans are shocked and appalled by the suggestion that officials of Mexico's reformist, Harvard-educated government would actually plan to murder members of their own party or have direct business relationships with Mexico's cocaine lords. The fact is, however, that the violence linked to the drug trade in Mexico is less a civil war than a family squabble; a form of vicious attrition that hurts Mexico's dearly purchased image as a leader among the 'emerging markets' around the world." This is a follow-up to the original "Dinero" article, the English translation of which is on the Internet at http://l-r-i.com/narco.html.

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By Christopher Whalen (whalenc@l-r-i.com)

In July of 1996, the Clinton Administration imposed harsh sanctions on Colombian President Ernesto Samper and "decertified" Colombia for not cooperating in the "war on drugs." The reason for this strong action by Washington against Colombia was the seemingly incontrovertible evidence that Samper's political activities were financed by drug money.

During precisely this same time frame, the Clinton Administration was lauding the cooperation in anti-narcotics efforts of the government of Ernesto Zedillo in Mexico, Washington's partner in NAFTA and arguably one of the most important trading partners of the United States. In 1996, Mexico was once again "certified" as cooperating fully in Washington's war on drugs, even though there is overwhelming evidence that the government of Mexico is every bit as compromised by links to narcotics traffickers as is the Samper government in Colombia, perhaps more so.

"Washington's decision to certify that the Mexican government is cooperating fully in the war on drugs flies in the face of one essential fact: Mexico has become so dependent on the hard currency it receives from drug trafficking that any significant crackdown on its narcotics cartels would jeopardize economic recovery," writes Mexico expert Andrew Reding. "And any further deterioration of Mexico's economy would hurt NAFTA, destabilize Mexican politics, and increase illegal immigration."

It would be ridiculous to claim that the Samper government is "clean," but it is equally incredible to say that the evolving narco state in Mexico is appreciably different. The opposition PAN party's popular governor of Guanajuato, Vicente Fox, says that he has personal knowledge of Mexican Cabinet officials who are involved in narcotics. "Everyone knows that there are people involved with drugs at the highest levels of power," Fox told *El Norte* in January of 1996.

The arrest in early 1996 of Juan Garcia Abrego, *jefe* of the Gulf Cartel cocaine trafficking organization, allowed Mexico (and Washington) to at least claim progress in attacking the drug problem in comparison to Colombia. Some Mexican commentators believe that the decision to arrest and then almost instantly turn-over Garcia to U.S. authorities was part of an explicit, pre-election *quid pro quo* between Washington and Mexico City. Today Garcia sits in a Houston jail, negotiating the terms of what will almost certainly be a life prison sentence for decades of drug trafficking. He has not made any public statements nor has be been permitted to speak to journalists eager to question him about his links to political figures on both sides of the Rio Grande.

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Congressional sources say that Treasury Secretary Robert Rubin and White house Chief-of Staff Thomas (Mac) McLarty played a direct role in pushing through Mexico's recertification. Concerned primarily with Mexico's tenuous financial condition following the multi-billion dollar peso bailout in February 1995, the White House desperately needed a pretext whereby it could claim that Mexico, unlike Colombia, was working with the U.S. to combat the rising tide of narcotics crossing our borders, especially given strong anti-drug rhetoric coming from Bill Clinton in this election year.

Inside the U.S. law enforcement community, however, officials were furious over the political arm-twisting by Rubin and other Administration officials in the face of Mexico's clear failure to make real headway against the flow of drugs, even following the arrest of Garcia and several other drug *capos*. McLarty is rumored to be pushing to become the next Ambassador to Mexico in a second Clinton presidential term -- assuming, of course that Clinton, who is himself accused of using and associating with people involved in trafficking cocaine, wins reelection.

On August 1, Attorney General Janet Reno praised Mexico for cooperating with the United States in extraditing suspected drug traffickers. Asked if she thought the Mexican government was in danger of being taken over by narcotics corruption, Reno replied, "Both we and the Mexican government recognize that this is a serious problem in Mexico." And she added that "I think they are taking the steps to address what they inherited. And we will work with them in every way that is appropriate."

Reno's comment about "what they inherited" is especially important. A key tenant of Washington's official fiction about Mexico is that each new government in Mexico City is "clean" and fighting the corruption left by the previous regime. A corollary to this official mythology is that corruption exists mostly at the lowest levels of the officialdom, while senior Mexican officials are honestly fighting drug trafficking. Yet since the government of Ernesto Zedillo is merely an extension of that of Carlos Salinas de Gortari, the problems with the Salinas regime implied by Reno's statement are also the problems existent under Ernesto Zedillo.

During a visit to Washington just days before Reno's comments, Mexican procurator Antonio Lozano, the rough equivalent of a U.S. attorney general, was severely embarrassed when a former subordinate told the *Washington Post* and *Reuters* that Mexicans and Americans alike were being deceived by the Zedillo government claims of an all out struggle against Mexico's drug lords.

Ricardo Cordero Ontiveros, who resigned last November as the head of an anti-narcotics team operating near Tijuana, told a Mexico City news conference that the Zedillo government's claims of progress against drugs is a lie. "It's a joke for the people of Mexico and for the people of the United States who think Mexico is fighting drugs," said Cordero. "The only thing they are fighting is to make them disappear from the newspapers."

Cordero described to U.S. journalists how Lozano, nominally a member of the opposition PAN party and thus supposedly committed to reform, berated him for making reports of extensive corruption inside and actual narcotics trafficking by Mexican police. Cordero described how "Lozano told me that people would pay $3 million to have my job," a reference to the common practice of auctioning-off government positions where corruption is especially lucrative. "He was so angry I thought he would hit me."

Cordero told of how his attempts to intercept aircraft transporting tons of cocaine at a time into Baja California were met by reprimands from his superiors, who frequently ordered drug

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traffickers released. After Cordero was pulled from the Baja Norte area, a Caravelle jet carrying 15 tons of cocaine reportedly landed there, according to *Reuters*.

Following his revelations to the *Washington Post*, Cordero was invited to appear before the Oversight Subcommittee of the House Banking and Financial Services Committee. The invitation was extended on July 31st. He was arrested the next day in Mexico City and charged with drug trafficking and other crimes.

For daring to break the silence of complicity that prevails among most Mexican officials (and their allies in Washington), Cordero may have forfeited his life. "What the government wants to do is silence me," Cordero told reporters on August 10. "If I were allowed to speak and display the documents I possess, it would be the *procurador* here in a prison cell and not me."

The arrest of Cordero and other actions taken in the past several months constitute a deliberate effort by the Zedillo government to stifle dissent and prevent others in Mexico from going to the foreign press with tales of wrong doing. If there is an official effort in Mexico against drugs, it is to prevent revelations about the huge degree of official complicity between Mexico's political leaders and the shadowy *capos* of the international narco underworld.

Grupo Salinas

The close and increasingly intimate connection between Mexican politicians and the country's drug lords is one of the dirtiest but best kept secrets in Washington. The beginning of the rise of the narco-Mafia in Mexico dates to the coincident decline of the country's oil revenues, back over a decade to the debt crisis of 1982.

Then-president Miguel de la Madrid reportedly made a deal that allowed drug traffickers to use Mexico as a safe haven for transshipment activities and, most importantly, for billions of dollars annually in profits generated by selling cocaine, heroine and marijuana. Already a haven for terrorist groups such as ETA and the PLO, Mexico's alliance of convenience with drug traffickers was not unusual and fit perfectly with the general atmosphere of corruption and complicity that permeates much of daily life. The *narcotraficantes* provided the De la Madrid government with badly needed liquidity and very literally prevented Mexico's fragile government from collapsing in the mid-1980s.

By 1988, following six wrenching years of financial deflation and economic contraction, the people of Mexico were in a sullen mood and hungry for change. By all accounts, Cuauhtemoc Cardenas Solorzano, the son of national hero Lazaro Cardenas, narrowly won the election, but the ruling PRI party managed to steal the race by unplugging the computers used to count votes and declaring victory. With control of the police, the support of the military and billions of dollars in "bridge loans" from the U.S. Treasury, Carlos Salinas de Gortari took office in 1988, but in fact he had already been in control of Mexico's government for over three years.

From 1982 through 1987, Carlos Salinas worked as Secretary of Programming and Budget of Mexico's federal government. In this important post he began to gather around him a group of lieutenants who would help to seize and hold power in Mexico from 1985 right up until the present day. Salinas' term ended officially in December 1994, but as Cardenas himself noted in May of this year: "We are in the eighth year of the Salinas *sexenio*" or six-year presidential term. Under Mexico's reform constitution, reelection is not permitted.

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Many Americans are aware of allegations of murder, drug trafficking, illicit enrichment and other crimes against former President Salinas' older brother, Raul Salinas, who was discovered to have several hundred million dollars hidden in Swiss bank accounts. Strangely, the illicit transfers were made in the name of Juan Guillermo Gómez Gutiérrez, Raul Salinas' alias, suggesting that he wished to maintain secrecy. Yet the money was sent from Mexico to Switzerland via Citibank in New York, leaving an unmistakable electronic trail easily followed by Swiss investigators and later by their reluctant U.S. counterparts.

Citibank is currently the subject of two separate grand jury investigations, according to informed sources. "The U.S. Department of Justice has prepared a series of indictments against Raul Salinas for extortion and *narcolavado* (drug money laundering)," writes Carlos Fernandez Vega in the Mexico City daily *La Jornada* (July 29, 1996). "Charges have also been drawn up against Citibank and its highest officials, including Chairman John Reed, for criminal conspiracy and violations of law by the company in connection with money laundering."[1]

Citibank, for its part, refuses to comment on the matter, but America's premier international money center bank is very nervous. The bank hired scores of Washington operatives to monitor the issue as well as Republican lawyer and former Whitewater prosecutor Robert Fisk, Jr. to represent them in the federal inquiry. According to the *Wall Street Journal*, Fisk will work with Danforth Newcomb, an attorney with Sherman & Sterling, the powerhouse Wall Street law firm that also just happens to represent and act as registered foreign agent for the Mexican government.

None of the current U.S. inquiries would have materialized had the Swiss authorities not acted first to identify and later freeze the ill-gotten funds secreted away by *Raulito*. Part of the Zedillo government's public relations strategy has been to convince foreign and domestic observers that *Raulito* was *el unico malo* (the only bad one), according to a cover story in the weekly *Proceso*. And yet Raul Salinas is not the only connection between former President Carlos Salinas, his enfeebled successor Ernesto Zedillo, and Mexico's drug lords. While Raul Salinas was an important part of the mechanism of corruption and malfeasance that was the Salinas government, he was only one of several important government and business figures who reportedly helped to accommodate drug trafficking, and then accumulate, launder and steal literally billions of dollars during the six-year Salinas *sexenio*.

"The privatizations, we now know, were not used for any other purpose than the requisition of the property of the nation by a *narco-mafia* headed by Carlos Salinas de Gortari," Luis Javier Garrido writes in *La Jornada* (July 6, 1996). "The many overwhelming pieces of evidence demonstrate that the Salinas brothers used the process of privatization and, more important, neo-businessmen and neo-bankers, to launder money that they obtained from *narcos*, and that these groups in turn used the government to obtain exceptions to the law, concessions and franchises to consolidate the oligarchic groups that dominate our country."

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[1] John Reed attended the 1988 presidential inauguration of Carlos Salinas as an honored guest and personal friend of his father Raul Salinas Lozano. During that visit to Mexico City on December 1, 1988, Reed told the Mexico City press: "Today Mexico does not begin another page with another president. Today it starts a different book of Mexico's history with President Salinas and his bright Cabinet ready to break away from the past."

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Narcosistema

The U.S. Drug Enforcement Agency (DEA) has heretofore worked under the assumption that Mexico's Gulf Cartel cocaine trafficking organization was a triangular structure: First Raul Salinas managed political and business relationships; second, Juan Garcia Abrego, who is now in U.S. custody, was the visible leader of the Gulf Cartel; and third, Carlos Cabal Peniche was the *neo-banquero* and offshore financier, laundering the dirty proceeds of the drug business and conducting other illicit transaction on behalf of allied individuals and groups who worked with the Mexican narcotics syndicate and its subsidiaries in Colombia and Europe.

These basic structural suppositions are correct, but the composition of the operation and the personalities involved are much larger and more complex. The drug cartels in Mexico and Colombia are not separate, discrete organizations limited by national borders, but rather fingers on a hand that is a transnational drug delivery, money laundering and financial investment corporation -- call it the *Narcosistema* -- with powerful political and business ties that reach all around the world, from Washington to Mexico to Cali to Palermo to Moscow.

While Raul Salinas was an important bag man for the *Grupo Salinas*, he was only part of a much larger mosaic of power and corruption that still controls Mexico and the government of Ernesto Zedillo, who is merely a junior functionary of and subordinate to the leaders of the *Narcosistema*. In terms of the day-to-day business of government between 1988 and 1994, the most important of the Salinas lieutenants was Jose Corboba Montoya.

A French citizen of Spanish descent, Cordoba worked with Salinas in the budget and planning area from 1982 through 1988. Later, as head of the Office of the Presidency, Cordoba would assume extraordinary powers far beyond those normally ascribed to this narrow position, including control over Mexico's state security and intelligence resources normally exercised by the *secretaria de gobernacion*, Mexico's Soviet-style Interior Ministry.

It is widely assumed by Mexicans that Cordoba, acting for Carlos Salinas, was the intellectual author of the March 1994 assassination of Luis Donaldo Colosio, the PRI presidential candidate who had refused to remain under the control of Cordoba and his master, Carlos Salinas. A Roman Catholic church newspaper alleged on August 20, 1996 that the "highest circles of power" in Mexico were behind the murder of Colosio.

The bimonthly newspaper *Nuevo Criterio*, an official publication of the Archdiocese of Mexico, said in an unusually outspoken editorial that the Colosio slaying was clearly a plot and not the work of a lone gunman. "The resources used to carry out the crime, but especially the way it was handled afterwards, make it clear that... the mastermind was in the highest circles of power," it said. It added: "There is much evidence of the violent and vengeful way in which ex-president (Carlos) Salinas de Gortari resolved his difficulties with other people."

Cordoba has also been accused of having direct and personal ties to the *Narcosistema* through his former mistress, Marcela Bodensted. During the summer of 1994, several Mexican publications ran extended excerpts of telephone conversations between Cordoba and Marcela Bodensted, a former law enforcement official who is alleged to have maintained ties to drug traffickers (Mexican authorities have never pursued any of the allegations against Cordoba or Bodensted). [2]

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[2] During the Salinas *sexenio*, Cordoba was in control of Mexico's national security system and acted as virtual Vice President.

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The daily *Reforma* and the weekly magazine *Proceso* published telephone conversations that made reference to cocaine shipments and also indicated a great degree of intimacy between the two people. Bodenstedt, for her part, once conducted a televised interview in which she admitted to having a relationship with Cordoba but denied any links to drugs. Cordoba has likewise denied links to drug trafficking, yet some of the telephone calls were made by Bodenstedt from the office of Enrique Fuentes Leon, a Mexican attorney who has represented cocaine king Juan Garcia Abrego since 1974 lived in San Antonio until January of 1995.

Incredibly, Cordoba lived in Washington for the past two years in *de facto* exile and worked as a consultant for the Inter-American Development Bank and the World Bank. He has never been questioned or detained by U.S. officials regarding the allegations of links to drug trafficking. One reason for this lack of official interest by the Clinton Administration may be that *Pepe* Cordoba has many friends in Washington, including National Security Adviser Anthony Lake and his deputy, Samuel Berger, but in fairness it must be said that his political ties inside the White House date back to the Bush Administration.

Former Under Secretary of State Bernard Aronson confirmed in an interview with *Proceso* that "for [the Bush Administration], to talk to Cordoba was almost the same as talking to Salinas." Aronson could not specifically recall how many times he met with Cordoba during his tenure as the chief State Department official in charge of U.S. relations with Latin America, but said that "he met with me many times."

Aronson also told Pascal Beltran del Rio of *Proceso* that Cordoba maintained close ties and met frequently with Bush National Security Adviser Brent Scowcroft, former USTR Carla Hills, Under Secretary of State Robert Zoellick, and former Secretary of State James Baker III. When asked if he knew anything of the personal connection between Cordoba and Marcela Bodenstedt, a former newscaster for *Televisa* and a lieutenant in the Gulf Cartel, Aronson replied: "I know nothing."

El Financiero reports that former President George Bush and former U.S. Ambassador to Mexico John Negroponte agreed in 1990 to discourage attention on the questions of drug trafficking and official corruption in order to help win the passage of the NAFTA in 1993. Senator Ernest F. Hollings (D-S.C.) denounced the relationship between Cordoba and various U.S. officials repeatedly, but the Clinton Administration made no move to either investigate or question Cordoba.

After completing his contract with the World Bank in July, Cordoba moved back to Mexico. He now lives in the city of Guadalajara, where he enjoys the protection of Raymundo Gomez Flores, a leading Mexican *empresario* and close associate of Raul Salinas and Carlos Cabal.

The second key figure who worked with Salinas to consolidate power before and after the abortive 1988 election was Emilio Gamboa Patron. The son of a couple from Yucatan, Gamboa preceded Salinas in the Ministry of Planning and Budget as personal assistant to then Secretary Migeul de la Madrid from (1979-82). He then served as private secretary of President Miguel de la Madrid (1982-1988). Through his alliance with Gamboa, Carlos Salinas was able to control the flow of information into De la Madrid's office and effectively manipulate Mexico's government long before he actually took power. A joke that circulated among Mexico's elite at the time said: "Why will Emilio Gamboa never be a presidential candidate?" Answer: "Because the Constitution does not allow re-election!"

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Gamboa, who became head of Mexico's Social Security Institute in 1991 and Minister of Communications and Transport in 1993, is believed to have been the direct liaison between the De la Madrid government and the narcotics underworld. In fact, press reports in Mexico suggest that Gamboa was instrumental in introducing Cordoba to Marcela Bodensted, thus giving the *Narcosistema* a direct point of access to the Office of the Presidency of Mexico.

Eduardo Valle, like Cordero a former official of the Mexican Procurator General's Office assigned to anti-narcotics activities, says that "Gamboa has protected the narco trafficking organizations throughout his career -- either by omission or deliberate action." A January 23, 1996 editorial in the *New York Times* following the arrest of Juan Garcia Abrego said: "[Garcia's] heyday came during the presidency of Carlos Salinas de Gortari when he is reputed to have enjoyed links with the President's brother, Raul Salinas, and the Cabinet officer in charge of airports, seaports and highways, Emilio Gamboa Patron." The Transport Minister post is a key infiltration target for drug traffickers and other criminal elements because of its control over many air and land routes used for illicit activities.

Gamboa wrote an indignant letter to the *New York Times*, taking issue with the editorial that accused him of being an associate of the cocaine boss Garcia. Gamboa claims that "I have never met him," yet in Mexico it is still widely accepted that Gamboa served as a link between the Salinas government and the Gulf Cartel of Juan Garcia Abrego, a role he also played under President Miguel de la Madrid.

After the revelations about his links to the *Narcosistema* were published in Mexico, Gamboa did not resign, but instead was promoted by the newly elected President of Mexico, Ernesto Zedillo. Gamboa was appointed by President Zedillo to head Mexico's National Lottery early in 1995 and now heads the state tourism agency, Fonatur, where he regularly negotiates hotel and resort development deals with foreign investors.

"Because of the huge financial power of the *Loteria Nacional*, Presidents usually give the post to a very trusted official," says Valle, who notes that Gamboa helped the Gulf Cartel to infiltrate the campaign of Luis Donaldo Colosio. "Mr. Gamboa," wrote Valle from his exile in Washington last year, "you are at best an accomplice of the multinational drug trafficking corporations... Is the power of Salinas so great in the Zedillo Administration? Are we not supposed to be protected against 'reelection?'"

The third key figure in the leadership of the *Narcosistema* during the Salinas Administration and even today was Carlos Cabal Peniche. A man of obscure origins, Cabal first surfaced on the North American financial scene in Miami in 1987, operating a business with Federico de la Madrid, the second son of Mexico's former president.

At the time both of the men, who were in their early thirties, outwardly were in the business of shrimp exports, but press reports in Mexico indicate that they were the clients of the shadowy Bank of Credit and Commerce International (BCCI). In his book "Destabilization," Jorge Fernandez Menendez describes how the two drew funds from an offshore entity called "Fundacion Caribe" and maintained connections with organized crime figures in Miami and Mexico.

In 1987, Federico de la Madrid Cordero began to make week-end visits to the state of Tabasco with Carlos Cabal Peniche. Both were young and relatively unknown, yet they surprised everybody by paying cash to buy the best banana plantations and other real estate in the Gulf coast state. From this region would later emerge the giant San Carlos World Trade Company,

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which in time would buy Del Monte Fresh Produce in Florida, facilities throughout Mexico and Central America, and a fleet of 35 ships.

Manhattan District Attorney Charles Morgenthau, investigated these matters when Cabal was charged in New York of civil fraud by a former director of BCCI, Prince Khalid bin Mahfouz, a Saudi national who claimed that Cabal stole around $70 million dollars through a embezzlement scheme involving his now defunct firm, Eastbrook Inc. in New York. Though virtually ignored in the U.S. press, this important episode in the larger BCCI affair was important as a precursor to the subsequent financial fraud designed and executed by Cabal in Mexico.

The Salinato

In October 1987, Carlos Salinas was nominated by the PRI to be the presidential candidate in the elections for the following July. In ten short years, Salinas went from a Ph.D. from Harvard to getting elected President of a nation of 95 million people at the age of 39. He had no political credentials, but a strong association with Miguel de la Madrid and his equally young private secretary, Emilio Gamboa. His trusted aide and lieutenant Jose Cordoba, who posed no political threat to Salinas by virtue of being born outside Mexico, saw to the operational aspects of running the Salinas machine.

And also at his side, almost from the moment he took office, was Carlos Cabal, the man Salinas described as one of Mexico's new business leaders. Salinas introduced Cabal to domestic and foreign business leaders, and even convened a meeting of Central American leaders where Cabal was the featured guest.

Between 1990 and 1992, Carlos Cabal bought two Mexican banks, Banco BCH (renamed Banco Union) and later Banco Cremi. When they were combined, the two institutions were the fourth largest financial group in Mexico. Significantly, Banco Cremi was sold to Cabal by Guadalajara businessman Raymundo Gomez Flores, the political cousin and partner of Jose Cordoba.

The fact that Cabal had no explanation for the origins of the money used to purchase these banks and companies did not prevent Finance Minister Pedro Aspe or privatization czar and now Finance Minister Guillermo Ortiz from approving and even encouraging the transactions. Aspe, Ortiz and other senior Mexican officials, such as current Foreign Minister Jose Angel Gurria (a director of Banco BCH when Cabal acquired the bank), and Luis Tellez, now head of the Office of the Presidency, were among his strongest supporters.

Newspaper reports and photos published at the time confirm that Gurria and Aspe, among others, associated publicly with Cabal, if for no other reason than his close association with Carlos Salinas. Interestingly, Cabal also provided money for a U.S. Mexico "solidarity" program that operates in the U.S. and is overseen by Gurria and Mexico's Foreign Ministry to promote "advancement of Hispanic Groups." After Cabal's disappearance, he was replaced by Roberto Gonzalez Barrera, head of Grupo Maseca, the Mexican firm that recently consumated an alliance with U.S. agribusiness giant Archer Daniels Midland.

Starting in 1992, Cabal began to make a series of investments around Mexico, frequently in concert with Carlos Hank Rhon, the son of former Agriculture Minister Carlos Hank Gonzalez. Along with former Finance Minister Jaime Serra Puche, who presided over Mexico's disastrous peso devaluation in December 1994, Carlos Hank Rhon introduced Cabal to business audiences as

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the prototype of the new *salinista* entrepreneurial class. A joke that circulated in Mexico at the time, however, referred to Cabal as "Mr. Hoover" because of his ability to launder vast sums of money.

By 1993, Cabal had acquired the Camino Real Hotel chain and began to seek the rest of the Del Monte foods operation based in San Francisco (the latter transaction would have cost over $1 billion, but was never completed). He also announced plans to buy several Mexican seaports in the Gulf of Mexico and two more on the Pacific coast, but his financial and commercial empire already was beginning to disintegrate. And during the four years when he had accumulated literally billions of dollars worth of banks, commercial companies and property in Mexico and throughout the region, nobody ever took the trouble to ask where the money was coming from.

During the dictatorship of Plutarco Elias Calles early in the 20th Century, Mexico was ruled by a series of puppet leaders in a period known as the "*maximato*." The last of these supposedly weak presidents was Lazaro Cardenas, who finally overthrew Calles and sent him into exile. In Mexico today, many observers see a similar situation or *salinato*, with Ernesto Zedillo the president in-fact, but Carlos Salinas and his loyal supporters in the Cabinet and in several important states such as Tabasco and Vera Cruz exercising real power. The role played by Carlos Cabal in financing the PRI's political activities was an integral part of the Salinas strategy to keep control over Mexico's government long-after his six-year term ended.

The initial phase of the Salinas conspiracy to take permanent political control over Mexico began with the now infamous "millionaires banquet" in March 1993 at the home of Antonio Ortiz Mena in Mexico City. President Salinas and PRI chairman Genaro Borrego sat at the table with the 30 richest men in Mexico as PRI godfather Ortiz asked each to contribute $25 million to support PRI candidates. When news of the dinner was leaked to the press, however, a public scandal ensued and it became apparent that a different, more confidential approach to buying elections was needed.

In mid-1993, Cabal was given an extremely sensitive mission by Carlos Salinas; to establish some 50 secret banking trusts for loyal *salinista* political candidates around Mexico. Each PRI candidate would have access to a secret bank account and would be able to use overwhelming sums of money to defeat opposition candidates. For example, in the oil-rich state of Tabasco, *salinista* candidate Roberto Madrazo spent the peso equivalent of $100 million on his 1994 gubernatorial campaign, a figure 16 times the amount allegedly spent by President Samper in his entire presidential campaign in Colombia.

The opening deposit in Banco Union for the *fideicomiso* used to finance Madrazo's campaign in Tabasco was in the amount of $5 million and came from two Cabal-owned corporations, Lomas Mil and San Carlos World Trade. In June 1996, even Madrazo himself stated that in 1993 when the *fideicomisos* were established "the model businessman to imitate was Carlos Cabal."

Much if not all of the money used to finance these special *fideicomisos* came from Mexican and Colombian narcotics organizations, according to a senior government official, who explains that disbursements were made under the direct supervision of former President Salinas. Even the campaign of the assassinated PRI candidate Luis Donaldo Colosio was financed in this manner.

It is important to recognize that Colosio had been supported early on by Cabal and his *narco* business associates. Luis Donaldo Colosio was not killed because he was clean or because he wanted to create a democratic nation of laws in Mexico; he died because he had already taken the

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dirty money from the *Narcosistema* headed by Cabal and Salinas, and had then decided reject their control and to go his own way. Press reports at the time recount, for example, how Colosio rejected a speech written by Jose Cordoba, an event witnessed contemporaneously by one of Mexico most respected writers.

"Three weeks before Mexican presidential candidate Luis Donaldo Colosio was assassinated, he made a swing through Monterrey to attend a fund-raising dinner. Among those invited was a leader of one of the country's most powerful drug trafficking cartels," reported Douglas Farah in the *Washington Post* (April 4, 1995). "A counter-narcotics adviser to Mexico's attorney general warned Colosio and the drug kingpin, Humberto Garcia Abrego, was scratched unceremoniously from the presidential candidate's guest list."

On March 23, 1994, Colosio's campaign manager, Ernesto Zedillo, did not join Colosio on a tour of Baja California (the adoptive state of Zedillo's childhood). He was invited by Carlos Cabal, Chairman of the Board of Camino Real Hotels, to address the general meeting of the stockholders and directors in Mexico City. The subject: the future of the Mexican economy. That evening Colosio was murdered in Lomas Taurinas, Tijuana.

On May 12, 1994, Ernesto Zedillo attended the PRI state assembly where Roberto Madrazo was nominated candidate for the governorship of Tabasco, in the capital Villahermosa. Other honored guests from Mexico City that attended to witness the ceremony included Ignacio Pichardo, President of PRI, and the staff of the recently appointed PRI presidential candidate Zedillo.

After the May 12, 1994 ceremony, Zedillo met Carlos Cabal Peniche for lunch from 2 p.m. to 4 p.m. at the seafood restaurant "Las Lupitas" under heavy security, with just the two of them at the table. Roughly 60 local customers from Villahermosa witnessed that cordial lunch between the man who would be elected President of Mexico and one of the country's most notorious money launderers. After the luncheon, the two men left together in the same GM Suburban, followed by a host of heavily armed bodyguards.

In the final days of August, 1994, Carlos Cabal was warned by a senior government official that his arrest was imminent and that his financial and commercial empire would be seized by the Salinas government. By then, Zedillo had been elected in what appeared to be the cleanest elections in Mexico in recent history, but in reality the PRI apparatus was running full-speed to cover the financial tracks of one of the biggest acts of vote fraud ever committed. Salinas' political machine was in a hurry to clean-up any evidence of their financial fingerprints inside the Cremi-Union banking group.

Then in its final days, the Salinas government took control of Cabal's banking empire in early September and immediately began to erase all evidence of the *fedeicomisos* that had been used to finance the Madrazo gubernatorial campaign and the presidential campaign of Ernesto Zedillo. Significantly, the auditors who took control of the books of Banco Union and Banco Cremi worked for the Mexican Finance Ministry and reported directly to then-Finance chief Pedro Aspe. The cost to Mexico's government of taking over the two banks ran over $3 billion dollars, much of which resulted from loans to Cabal's offshore companies and business partners, making Carlos Cabal the author of the greatest financial fraud in the history of Mexico.

In 1995, reports began to emerge in the press about the huge amount of money provided by Cabal to finance the November 20, 1994 gubernatorial victory of Roberto Madrazo in Tabasco. So great was the protest over Madrazo's win that the newly inaugurated President Zedillo did not

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even attend Madrazo's installment on the last day of 1994, a ceremony that took place amid massive public protests and with the protection of 3,000 army troops and thousands more police.

In June of 1996, however, Ernesto Zedillo traveled to Tabasco and very publicly embraced governor Madrazo. This ceremony was interpreted by a number of analysts as Zedillo's acceptance of the protection of Madrazo during a year in which many still think he might be forced to resign. For Madrazo, Zedillo's gesture meant that he would keep secret and confidential the degree to which the money provided to his campaign in 1994 by Cabal was also used in the presidential campaign of Zedillo himself.

The existence of evidence suggesting that there was drug money behind the campaign of Ernesto Zedillo is very real, but the information is ignored by Washington. The first person to make a direct accusation was Dr. Peter Lupsha of the University of New Mexico, whose interview in the Mexican weekly *Proceso* in 1995 talked of planes carrying large amounts of cash from Colombia to Mexico between 1993 and 1994. The Spanish magazine *Cambio 16* ran a striking story last year containing revelations from alleged informants in the DEA in the same vein.

But perhaps the most striking accusation so far came from Alvaro Cepeda Neri, a well-respected lawyer and human rights advocate, who published his findings on the matter in Mexico City earlier this year. Under the title: "Two Ernestos: Brothers Through the Cali Cartel Money," he describes in detail how huge amounts of cash have been provided to Mexico's ruling party by the Colombian cocaine cartels. In May 1996, after his findings were made public, Cepeda was assaulted and severely beaten by a group of thugs, leaving him hospitalized.

The reaction of the Mexican government to individuals who raise allegations of official corruption is almost always to attack the credibility and frequently the physical well-being of the person concerned, even members of the government itself. The case involving Ricardo Cordero is only one example in literally dozens where the whistle blower quickly becomes the victim of the Mafia State that rules Mexico with the support of Washington.

In March of 1994, the Mexican Consul General in San Antonio, Humberto Hernandez Haddad, was eating lunch at the exclusive Petroleum Club in that city at the invitation of a local business leader. All of a sudden, he was approached by Gustavo Garcia, a Mexican resident in San Antonio and by Roberto Gonzalez Jr., vice president of Mexican tortilla maker Maseca and the son of the firm's owner, Roberto Gonzalez Barrera. Garcia asked Haddad, a former Mexican Senator from Tabasco and one of the country's most respected diplomats, if he would care to meet their third companion, who was sitting alone at a table nearby.

At the table sat the former attorney for Juan Garcia Abrego, Enrique Fuentes Leon, who was a fugitive from an arrest warrant for bribing two judges in Mexico in connection with a murder. Hernandez replied brusquely that he would not meet Fuentes and suggested that he should present himself to Mexican authorities to answer the charges against him. Garcia's response shocked Hernandez:

"He answered that the legal situation involving Fuentes Leon would be resolved quickly," according to *Proceso* (8/4/96). "Garcia also revealed that Fuentes was closely tied to Luis Donaldo Colosio, who had asked Fuentes to draft a new penal code for Mexico. He also said that Fuentes had good relations with the political group of Dr. Ernesto Zedillo, who had only been nominated as [PRI] presidential candidate the previous day."

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Fuentes was arrested later that year in Texas on immigration charges, but this was not the first time. He had been a fugitive from justice in Mexico for almost six years, yet when he was arrested in late 1994 he was carrying a brand-new Mexican passport issued by the Mexican Foreign Ministry. Neither then Foreign Minister Manuel Tello nor his successor Jose Angel Gurria ever investigated how a fugitive could obtain a new Mexican passport.

At the time of his arrest, Fuentes was in the company of Manuel Munoz Rocha, a former PRI congressman who is charged with being the intellectual author of the second major political assassination in Mexico during, namely the daylight execution of Jose Francisco Ruiz Massieu in September of 1994 in front of a Mexico City hotel. Like Colosio, the murder of Ruiz was intimately involved with a power struggle based ultimately on control over drugs and money laundering. In the center of that fight: Carlos and Raul Salinas de Gortari.

For several years prior to his 1994 arrest, Fuentes used his powerful connections in the U.S., in particular Houston lawyer Jack Pytel, to block his extradition back to Mexico. At the request of Roberto Gonzalez Jr., according to press reports, Pytel wrote to Texas Senator Lloyd Bentsen, for whom Pytel had worked previously as an aide, asking for the powerful lawmaker's intervention regarding Fuentes' immigration status and even suggesting political asylum!

During several trips to Washington, Pytel and Fuentes met with members of Congress and officials of the U.S. Treasury. As part of his efforts to buy influence in the U.S., The former attorney for cocaine kingpin Juan Garcia Abrego apparently contributed $20,000 to the Democratci Party during the 1992 election campaign of President Bill Clinton. This information comes from a January 16, 1995 article published by the respected Mexican weekly *Proceso*, which is based on records relating to Fuentes in the Federal Courthouse in San Antonio. The same report in *Proceso* states that Hillary Clinton was involved in the legal effort to block the expulsion of Fuentes, who was the subject of the longest extradition hearing in U.S. history. Specifically, court documents in San Antonio indicate that Jesse Monroy, a Mexican citizen who resides in Texas, and *narco* lawyer Fuentes were invited on several occasions to the White House, allegedly by Hillary Clinton, and were involved in a group called *Hispanos por Democracia y Justicia* in California.

When it was clear that he would be extradited, Fuentes instead agreed to be deported back to Mexico on January 12, 1995. The next day, Fuentes was released on bond by procurator Antonio Lozano, who has done nothing with the case since that time.

When Hernandez informed the Zedillo government of the presence of Fuentes and Munoz in Texas, the response from Mexico City was one of silence. At first Mexico's Foreign Minister, Jose Angel Gurria, demanded that Hernandez distance himself from the case and issue a fraudulent statement in the name of the consulate denying the presence of Munoz in Texas. When such a statement was destroyed by press consul Jesus Contreras, he was rewarded for his disobedience by being assaulted and beatening upon return to Mexico City at the request of Gurria.

Later, when Hernandez insisted that the matter be investigated and even presented the sworn testimony of several U.S. federal law enforcement officials to back-up the reports that Munoz was indeed in Texas, the response of Gurria was at first silence, then finally to dismiss Hernandez as consul. Hernandez had reported to the Zedillo government the presence in the U.S. of Mexican fugitives involved in drug trafficking, money laundering and murder, but no steps were taken to apprehend them. Gurria even threatened the life of Hernandez during a May 30, 1995 telephone conversation," according to *Proceso*.

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The presence of Fuentes, a man thought to be connected with both the Colosio and Ruiz murders, in San Antonio is no accident. The beautiful Texas city is rapidly becoming a center for Mexican business activity, both legal and illicit. One banker familiar with the situation claims that San Antonio is growing as an important center for money laundering, quite literally a bridge between the narcotics operations based in Mexico and the related financial and investment activities in the U.S. Every year the Federal Reserve Board reports more than $3 billion in cash excess in the Federal Reserve Bank of Dallas, a fact that prompted Rep. Henry B. Gonzalez to request a federal investigation of the orgins of this surplus of physical cash, the third highest surplus after Los Angeles and Miami.

Meanwhile, in Mexico the Zedillo government continues to founder, in part because the former *Banco de Mexico* economist and education minister is essentially a hostage to the *Narcosistema*. Nothing better highlights the captivity of the Zedillo presidency than the presence of Finance Minister Guillermo Ortiz at *Hacienda*. Ortiz and other loyal followers of the *Grupo Salinas* seem to be in a stronger position than ever before. Reports that former Salinas adviser and alleged *narcotraficante* Jose Cordoba Montoya has actually returned to Mexico and seems to be playing some type of behind-the-scenes role in the Zedillo government should come as little surprise.

The fact is that both Ortiz and Zedillo were once subordinate to the aggressive and, some say, nefarious Cordoba, even though his arrival into Mexico City society pre-dates their own. Ortiz, in fact, played a primary role in introducing Cordoba within the PRI and allowing him to quickly take on a power role in the past *sexenio*. Ortiz at one time was very open about his role in promoting the career of Cordoba, his former classmate at Stanford, a fact that now is rarely mentioned by the *Hacienda* boss.

In a luncheon in Washington last year, Eduardo Valle described his evolving thesis for understanding where Mexico is now and where it is going politically as well as economically.

"We have three economies in Mexico," says the journalist and writer known as *El Buho* (the owl). "You have the productive economy, industry and oil and other traditional businesses. There is the speculative economy, the financial markets, where nothing is produced but much is gained and lost. Finally, there is the criminal economy with all of the many dimensions and vast wealth, drugs, everything."

El Buho says that, for a while under Salinas, Mexico enjoyed a boom in the speculative economy while the productive sector suffered. The privatizations and other investment schemes provided huge money and this in turn empowered the technocrats, but now that is over. "Salinas was never a technocrat," says the wizened Valle. "He was a *mano dura* like Carlos Hank Gonzalez and his father... Zedillo is a captive of Salinas and his people, who control the Cabinet. The contest for power is between different people in the Cabinet. The situation in Mexico now is extremely dangerous."

So long as Washington continues to support Mexico's corrupt ruling party, there can be no hope for economic recovery, no hope for the spread of real democracy, and absolutely no possibility of a victory in the war against drugs. Indeed, every member of the Clinton Administration, every official of the Federal Reserve System and Treasury, and every functionary of the World Bank and International Monetary Fund, by providing financial and rhetorical support to the government of Mexico, are in fact partners in and supporters of the *Narcosistema*.

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16 POLITICA

EL FINANCIERO ● SABADO 3 DE AGOSTO DE 1996

Innumerables irregularidades en el caso Cordero Ontiveros

Tendencia de la PGR a fabricar culpables

Jesús Rangel

La alternancia partidaria no garantiza que haya cambios en los modos de proceder de la Procuraduría General de la República (PGR). Hoy controlada por panistas, la PGR conserva el estilo de fabricar culpables heredado de su pasado priista.

En el caso de las acusaciones y encarcelamiento del exfuncionario del Instituto Nacional para el Combate a las Drogas (INCD), Ricardo Cordero Ontiveros, aparecen irregularidades al por mayor que indican la ruta de la prefabricación de delitos:

—El principal testigo y acusador, el agente del Ministerio Público Federal, José Angel Robles Santamaría, está prófugo, pues contra él también se emitió orden de aprehensión. Valga el símil grueso: como el delator del Ejército Zapatista, Salvador Morales Garibay, vino, denunció y huyó. Aunque había motivo para ejercer acción judicial contra ambos.

—Otros "cómplices" de Cordero fueron liberados al no haber elementos para su consignación, como el excomandante Aurelio Muñoz.

—Hay un agente del Ministerio Público Federal, José Gerardo Huerta Psihas, que muestra el don de la ubicuidad el 11 de julio de 1996, al actuar en funciones diferentes y contradictorias.

—Actas ministeriales que supondrían muchas horas de interrogatorio y dictado se consignan como elaboradas en menos de 15 minutos. Ni la computadora y la mecanógrafa más veloz podrían lograrlo.

—Oficialmente la PGR declaró que a Cordero se le inició una averiguación a raíz de que él mismo dijo a la prensa que "fue obligado" a liberar a un grupo de traficantes de marihuana. Pero la acción judicial contra él se inicia tras la presentación "voluntaria" y para lavar su imagen supuestamente dañada en sendas notas de dos diarios de circulación nacional del exagente del Ministerio Público a quien Cordero precisamente había acusado como protector de la droga y a quien señaló por su simple apellido: licenciado "Robles". Este MP, Robles Santamaría, estuvo en la delegación de la PGR en Tijuana antes de que se echara a andar toda la maquinaria de la institución en contra del exfuncionario Cordero que se atrevió a denunciar públicamente que había corrupción y venta de plazas en la PGR.

—El colmo de las incongruencias plasmadas en documentos oficiales es que el comandante Jorge Enrique García Alonso Alonso, a las 13:15 horas del 19 de julio de 1996 "ratifica en todas y cada una de sus partes" un parte informativo de octubre de 1995 y lo declarado por el MP Robles Santamaría el 11 de julio. Estos documentos —consta en actas— fueron recibidos en "legajo de 60 fojas útiles" el 20 de julio de 1996; es decir, un día después, lo que hacía imposible que ratificaría algo que no estaba todavía en manos de las autoridades judiciales que lo interrogaban.

El compadre, Antonio Lozano Gracia y el delegado regional de la PGR en Baja California, Luis Antonio Ibáñez Cornejo, observando los toros detrás de la barrera.

Foto: Archivo

Aparte, éstas y muchas más contradicciones que aparecen en el expediente de más de 70 páginas —parte del cual posee EL FINANCIERO—, el excomandante Ricardo Cordero Ontiveros, quien fuera subdirector de Aprehensiones del INCD, está preso en Tijuana, una plaza controlada por uno de sus principales denunciados, el delegado de la PGR en Baja California, Luis Antonio Ibañez Cornejo. Pésima suerte está de Cordero, que enfrenta cargos por lo hecho y evasión de detenidos, haber sido encarcelado en tenguinos de su exjefe Ibáñez, porque este personaje es tan cercano al procurador de la República, Antonio Lozano Gracia. Ellos suelen presentarse en público en festejos taurinos, como ocurrió en la inauguración de la temporada grande en la Plaza México, cuando el matador Jorge Gutiérrez le brindó un toro al titular de la PGR.

➢ *Dos varas, dos medidas*

Ricardo Cordero, joven empresario potosino metido a comandante antinarcóticos, supo la semana pasada desde la cárcel estatal de Baja California, a donde fue trasladado después de que en la Penitenciaría logró hablar con los periodistas:

"Soy víctima de una burda acusación. Soy el primer preso político del Partido Acción Nacional"

La versión del procurador Antonio Lozano Gracia es otra. Dice que Cordero "actuó mal por ineficiencia" que amparado por la placa de comandante amenazó de muerte a sus acreedores de San Luis Potosí: "Por esta razón se le pide su renuncia y se le da de baja y busca de mil maneras poder integrar nuevamente a la fuerza, lo cual sistemáticamente es rechazado".

Al fracasar en su intento de volver a la PGR —siempre en la versión del procurador Lozano—, Cordero "empieza a denunciar todas estas irregularidades. El conflicto la comisión de delitos: cuando menos que dejó ir a narcotraficantes que había capturado. Así que se inicia por ello una averiguación y se comprueba después, con el testimonio de seis personas diferentes, que el señor llegó a un arreglo en el que pretendía obtener 90 mil dólares".

Tras estas declaraciones de Lozano al periodista Miguel Angel Granados Chapa, en el programa del 13 de agosto de "Plaza Pública" de Radio UNAM, ya no aparecían espontánea la acusación del hoy "esfumado" agente del MP Robles Santamaría.

Pero hay algo más inquietante. Igual que el procurador, afirma que Cordero confiesa delitos, el propio Lozano confiesa que a la PGR llegó un ofrecimiento de tres millones de dólares "para que nombráramos a una persona a una plaza, que habíamos nombrado la noche anterior. Yo lo había autorizado (el nombramiento, a sugerencia del subprocurador también panista Hiram Escudero). Este ofrecimiento, que nos llega al día siguiente, por supuesto lo cancelamos. Pero lo curioso es que después nos enteramos que el ofrecimiento había sido hecho para que se cancelara porque esta persona les iba a estorbar".

La anécdota concluye en que, por supuesto, no se aceptó esa magna corrupción. Pero hubo el ofrecimiento específico. No hay, que se sepa, ninguna persona detenida por el delito que significa el solo intento de comprar a la autoridad por tres millones de dólares.

Dos aceptaciones públicas que van más allá de la anécdota. Dos resultados muy diferentes, pues un protagonista está en la cárcel y el otro es su perseguidor. Dos varas y dos medidas.

➢ *Don de ubicuidad*

El 28 de julio de 1996, según consta en actas, el agente del Ministerio Público titular de la Mesa VIII de Averiguaciones Previas, José Gerardo Huerta Psihas, realizó inspecciones oculares y dio fe en diferentes domicilios, en Tijuana y Tecate, entre las 15 y las 22:30 horas.

Pero hay una constancia de que el mismo funcionario hacía una llamada "por medio del aparato telefónico de esta oficina, cuyo número es el 34-34-70, extensión 1003, al número 21-46-29, habiendo contestado el llamado el licenciado José Angel

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Robles Santamaría, a quien se le hizo saber que era necesaria su presencia ante esta Representación Social Federal" para ampliar declaraciones del 11 de julio.

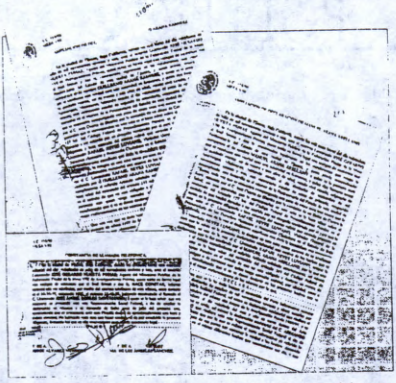
Robles Santamaría, agente del MP denunciante de Cordero, dijo que iría en hora y media. Hasta la fecha no aparece. Pero los papeles oficiales ubican a Huerta en dos sitios diferentes a la misma hora.

Este mismo licenciado Huerta Psihas había tomado la declaración inicial de Robles Santamaría el 11 de julio. Robles comenzó a rendir testimonio a las 13:30 horas, el cual obra en seis páginas tamaño oficio a renglón cerrado.

Quince minutos después, a las 13:45 horas, el licenciado Pedro Ramírez Cornejo, el subdelegado de Averiguaciones Previas (jefe de Huerta), ya había recibido copia de la denuncia y ordenaba diligencias. Un tiempo récord que podría registrarse en Guiness.

Por instrucciones del delegado de la PGR, Luis Antonio Ibáñez Cornejo, el subdelegado de Averiguaciones Previas Ramírez Violante le remite al agente del Ministerio Público de la Federación en turno las seis fojas útiles de la denuncia de Robles Santamaría y le pide "se sirva instruir el Acta Circunstanciada". El titular de la Mesa VIII de Averiguaciones resultó ser el mismo agente del MPF en turno, otra vez el licenciado Huerta Psihas y las seis hojas que le remitía su jefe eran las mismas del acta que él ya había levantado.

Quizás la más grave e increíble fabricación que se ve en actas es que, sin defensor de oficio ni testigos de asistencia, los hermanos Manuel Arana Arellano y Guillermo Arana Ramírez, presos desde el año pasado, acusados de tráfico de mariguana, hacen el 23 y el 24 de julio una narración



de hechos en que no culpan a Cordero Ontiveros.

Sin embargo, a las seis de la mañana del 27 de julio, en la Penitenciaría, y tomando la precaución de que estuviera presente el visitador general de la Procuraduría de los Derechos Humanos de Baja California, Rafael Reyes Luviano, el Ministerio Público logra que Guillermo Arana inculpe a Cordero Ontiveros en "ampliación de declaración".

A las 6:11 inicia un segundo interrogatorio, a Manuel Arana (otro lapso de tiempo en que es física y materialmente imposible escuchar declaraciones y dictar cuatro fojas a renglón cerrado), para desdecirse igual que su hermano de sus anteriores declaraciones y acusar a Cordero de poner en libertad a varios traficantes.

El campeonato de rapidez en lectura, comprensión y capacidad de discernir sobre presuntas culpabilidades en delitos graves, puede ser atribuido a la juez quinto de Distrito en Materia Penal, María de Lourdes Villagómez.

Ella recibió a las 11:45 horas del 31 de julio un expediente de 539 fojas, de la Averiguación Previa 1356/96 en que la PGR acusa al excomandante Ricardo Cordero de delitos contra la salud "en sus modalidades de posesión, transporte y extraer en forma ilegal del país el estupefaciente denominado mariguana, evasión de presos, cohecho, robo, delitos cometidos por servidores públicos y extorsión en grado de tentativa".

En la tarde del día siguiente, primero de agosto, desde Tijuana la juez dictaba órdenes de aprehensión contra Cordero y también contra su denunciante Robles Santamaría, contra Aurelio Muñoz Almanza, Armando Gómez Alvarado, Jesús Martínez Reyes y Jorge Enrique García Alonso.

Cuatro horas después, esa misma noche, Cordero Ontiveros era capturado en un operativo en Coyoacán, cuando salía de participar en la presentación de un libro y todavía junto a periodistas que le hacían preguntas. Sus captores llevaban un fax supuestamente con la orden judicial.

El excomandante potosino había recibido invitación formal para ir a testificar ante el Senado de Estados Unidos y mostrar las pruebas que afirma tener acerca de corrupción, venta de plazas y protección a cargas de droga en los más altos mandos de la Procuraduría General de la República.

Esta misma dependencia prefirió pagar el costo político de una acusación contra su acusador hecha seis días después que aparecieron las denuncias públicas de Cordero Ontiveros —sobre las rodillas, con evidentes fallas en forma, fondo, horarios, autoridades responsables—, antes que ser colocada en un banquillo de los acusados fuera de nuestras fronteras.

Descharolización en la PGR, anuncia Lozano Gracia

A la calle, 737 agentes de la PJF

Víctor Fuentes C.

Ayer, en un solo día, la Policía Judicial Federal (PJF) "separó de sus funciones" al 17 por ciento de sus integrantes: 737 de los cuatro mil 400 agentes, subcomandantes, comandantes y subdelegados —22 de los 33 que había, en el caso de éstos últimos— dejaron de laborar en la Procuraduría General de la República (PGR).

"No podemos permitir que elementos así se protejan con la credencial de la insutución y reciban un arma de la institución", Antonio Lozano Gracia, titular de la dependencia, anunció la instalación de un consejo técnico que se hará cargo "provisionalmente" de la PJF "para actuar en lo que es urgente y preparar lo que habrá de venir".

No hubo mayores explicaciones sobre el destino de los 737 nuevos desempleados —que se suman a otros 500 que han salido en lo que va de esta administración— salvo la afirmación de que "no estamos lanzando delincuentes a la calle", y otra más: "se le va a dar seguimiento" a los despedidos y "sólo se consignará a aquellos de los que tengamos datos que lo justifiquen".

Lo que sí quedó claro es que no habrá, por el momento, quien reemplace automáticamente a todo el personal. "Está a punto de salir la segunda generación del Instituto de Capacitación, pero por el momento no tenemos previstos a posibles sustitutos".

El procurador —quien durante la conferencia de prensa pidió a los reporteros guardar sus múltiples preguntas sobre otros asuntos para el próximo miércoles— se permitió ejemplificar uno de los casos extremos que llevaron a la depuración: un comandante de Sinaloa que guardaba 40 kilogramos de cocaína en su casa cuando ésta fue inspeccionada por la Visitaduría.

Otra novedad: se acabaron las charolas. "Estamos recogiendo todas las credenciales de los empleados de la Procuraduría. Se les van a asignar unas provisionales para luego darles las definitivas, que incluirán todas las claves requeridas por el Sistema Nacional de Seguridad Pública", uno de cuyos objetivos es tener censados y registrados a todos los policías del país.

En otras palabras, la charola tradicional de judicial federal, al amparo de la cual se cometen todo tipo de abusos, "ya no tiene validez alguna".

Otra innovación anunciada por Lozano Gracia —quien admitió, de nueva cuenta, "rezagos y vicios profundamente enraizados" en la PGR— es que comenzará a operar un área dentro de la Fiscalía para Delitos de Servidores Públicos, la cual estará dedicada exclusivamente a recibir denuncias contra personal de la Procuraduría.

Antes, dicha fiscalía recibía por igual quejas contra miembros de la PGR que contra cualquier otro funcionario de todas las dependencias del gobierno federal; ahora, la atención a los ilícitos internos será especializada, y estará a cargo de la Visitaduría.

➢ *El consejo técnico*

Por lo pronto, el recién nombrado director de la Judicial Federal, Emilio Islas Rangel —el cuarto en 22 meses de este sexenio— no acompañó a Lozano y los subprocuradores durante la conferencia. Trascendió que ya se encuentra concretando los despidos anunciados por el procurador.

Sin embargo, por ahora no será Islas quien se haga cargo por sí solo de la PJF; en el consejo técnico participarán el subprocurador general Hiram Escudero; el coordinador de Asesores de Lozano, Samuel González Ruiz, así como cuatro comandantes, entre ellos uno del Instituto Nacional para el Combate a las Drogas (INCD), que por sí solo cuenta con cerca de 800 policías.

Lozano Gracia justificó la remoción de Américo Flores Nava y la entrada de Islas —quien, como investigador de secuestros para la PGR, resolvió satisfactoriamente 17 de los 20 casos que enfrentó, además de su experiencia en la investigación inicial del caso Colosio— porque el primero no tenía el perfil "para asegurar el éxito de estas medidas", lo cual no quiere decir que vaya a salir de la dependencia.

Al procurador no le agradó la pregunta sobre la inestabilidad en la dirección de la PJF, que atribuyó, antes que nada, al grave accidente que sufrió su primer titular, Juan Pablo de Tavira.

Entre otras cosas, el Consejo deberá establecer los controles "para ubicar dónde están todos nuestros agentes, tanto los que se van como los que se quedan", además de preparar el terreno para que las futuras asignaciones de puestos de mando se hagan por examen de oposición interna, y para que la PJF se divida en tres comandancias regionales tan pronto como entren en funciones las subprocuradurías "A", B" y "C", lo que sucederá la próxima semana.

Finalmente, hizo mención al caso de Ricardo Cordero Ontiveros en los términos habituales: el hombre fue recomendado "porque tenía vocación e interés" y la ley permite nombramientos externos a los canales usuales de la dependencia. "En su denuncia, confesó haber dejado libres a presuntos narcotraficantes porque se lo habíamos ordenado. No fue así, y los testimonios comprueban que dejó ir a tres de los cinco detenidos para obtener un beneficio económico. Cuando esto fue confirmado, decidimos ejercer acción penal", aun sabiendo que parecía una repesalia evidente.

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